

PUBLIC UTILITIES COMMISSION

STATE OF HAWAII

ANNUAL REPORT

(HAW. REV. STAT. § 269-5)

FISCAL YEAR 2010-11

NOVEMBER 2011

TABLE OF CONTENTS

<i>I. EXECUTIVE SUMMARY.....</i>	<i>5</i>
<i>II. INTRODUCTION</i>	<i>7</i>
A. <i>DIAGRAM OF RESPONSIBILITY.....</i>	<i>8</i>
<i>III. COMMISSION HISTORY AND COMMISSIONERS.....</i>	<i>9</i>
A. <i>HISTORY</i>	<i>9</i>
B. <i>COMMISSIONERS</i>	<i>9</i>
C. <i>ADMINISTRATION AND OFFICES.....</i>	<i>11</i>
<i>IV. GOALS AND OBJECTIVES OF COMMISSION.....</i>	<i>12</i>
A. <i>PRIMARY PURPOSE</i>	<i>12</i>
B. <i>LONG-TERM GOALS.....</i>	<i>12</i>
C. <i>SHORT-TERM GOALS.....</i>	<i>12</i>
<i>V. CLEAN ENERGY LEGISLATIVE MANDATES.....</i>	<i>13</i>
A. <i>RENEWABLE PORTFOLIO STANDARDS.....</i>	<i>13</i>
B. <i>NET ENERGY METERING</i>	<i>15</i>
C. <i>PUBLIC BENEFITS FEE</i>	<i>17</i>
D. <i>ENERGY EFFICIENCY PORTFOLIO STANDARDS.....</i>	<i>21</i>
<i>VI. ADMINISTRATIVE UPDATE</i>	<i>22</i>
A. <i>FISCAL INFORMATION.....</i>	<i>23</i>
<i>VII. REGULATORY ISSUES AND PROCEEDINGS</i>	<i>26</i>
A. <i>DOCKET PROCEEDINGS</i>	<i>26</i>
B. <i>MAJOR REGULATORY ISSUES</i>	<i>28</i>
C. <i>ELECTRICITY AND ENERGY PROCEEDINGS</i>	<i>29</i>
D. <i>GAS PROCEEDINGS</i>	<i>46</i>
E. <i>TELECOMMUNICATIONS PROCEEDINGS</i>	<i>47</i>
F. <i>PRIVATE WATER AND SEWAGE UTILITIES PROCEEDINGS</i>	<i>50</i>
G. <i>MOTOR CARRIERS PROCEEDINGS</i>	<i>52</i>
H. <i>WATER CARRIERS PROCEEDINGS.....</i>	<i>57</i>
<i>VIII. ENFORCEMENT ACTIVITIES.....</i>	<i>60</i>
A. <i>COMPLAINT RESOLUTION.....</i>	<i>60</i>
B. <i>MOTOR CARRIER CITATIONS</i>	<i>64</i>
<i>IX. INQUIRIES.....</i>	<i>65</i>

<i>X. HAWAII ONE CALL CENTER.....</i>	<i>66</i>
<i>XI. UTILITY COMPANY OPERATIONS, CAPITAL IMPROVEMENTS, AND RATES</i>	<i>68</i>
A. UTILITY COMPANY OPERATIONS.....	68
B. FORECASTED CAPITAL IMPROVEMENTS	74
C. RATES OF MAJOR UTILITY COMPANIES	76
<i>XII. UTILITY COMPANY PERFORMANCE.....</i>	<i>85</i>
A. ELECTRIC UTILITIES EFFICIENCY AND SERVICE QUALITY	85
B. TELECOMMUNICATIONS SERVICE QUALITY MEASUREMENTS.....	110
<i>XIII. LEGISLATION ENACTED BY 2011 LEGISLATURE AFFECTING PUBLIC UTILITIES.....</i>	<i>119</i>
A. 2011 LEGISLATIVE MEASURES RELATING TO THE PUBLIC UTILITIES COMMISSION:.....	119
B. OTHER 2011 LEGISLATIVE MEASURES RELATING TO UTILITIES	121
<i>XIV. FEDERAL ISSUES AND ACTIVITIES</i>	<i>122</i>
A. FEDERAL UNIVERSAL SERVICE FUND (“USF”) ELIGIBLE TELECOMMUNICATIONS CARRIERS (“ETC”) – ANNUAL RECERTIFICATION.....	122
B. PROPOSED AMENDMENTS TO UNITED STATES CLEAN AIR ACT EMISSIONS RULES AFFECTING FOSSIL FUEL-BASED ELECTRIC POWER PLANTS	123
<i>XV. PREVIEW FISCAL YEAR 2011-12</i>	<i>125</i>

TERMS AND ACRONYMS USED HEREIN

- “ACEEE” – American Council for an Energy-Efficient Economy
- “AMI” – Advanced Metering Infrastructure
- “ARMIS” – Automated Reporting Management Information System
- “ARRA” – American Recovery & Reinvestment Act of 2009
- “ASA” - Average Service Availability
- “btu” - British thermal unit
- “CAIDI” - Customer Average Interruption Duration Index
- “CESP” – Clean Energy Scenario Planning
- “CETC” – Competitive Eligible Telecommunications Carrier
- “CFL” – Compact Fluorescent Light
- “C&I” – Commercial & Industrial
- “CI” – Customer Interruptions
- “CID” – Customer Interruption Duration
- “CIP” – capital improvement project
- “CIS” – Customer Information System
- “CFR” - Code of Federal Regulations
- “Commission” – Hawaii Public Utilities Commission
- “Consumer Advocate” – Hawaii Department of Commerce & Consumer Affairs - Division of Consumer Advocacy
- “CPCN” - certificate for public convenience and necessity
- “DOE” – Department of Energy
- “DSL” - Digital Subscriber Line
- “DSM” - Demand Side Management
- “ECAC” – Energy Cost Adjustment Clause
- “EE” – energy efficiency
- “EEPS” – Energy Efficiency Portfolio Standards
- “EGUs” – Electric Utility Steam Generating Units

“EPA” - Environmental Protection Agency

“ERAC” – Energy Rate Adjustment Clause

“ETC” – Eligible Telecommunications Carrier

“FCC” - Federal Communications Commission

“FIT” – feed-in tariff

“FY” – Fiscal Year”

“HAP” – Hazardous Air Pollutants

“HAR” – Hawaii Administrative Rules

“HECO” – Hawaiian Electric Company, Inc.

“HELCO” – Hawaii Electric Light Company, Inc.

“HRS” – Hawaii Revised Statutes

“HSCCCA” – Hawaii State Certified Common Carriers Association

“HT” – Hawaiian Telcom, Inc.

“HTSC” – Hawaiian Telcom Services Company, Inc.

“ICA” – Intermediate Court of Appeals

“IF” – Independent Facilitator

“ILEC” – Incumbent Local Exchange Carrier

“IO” – Independent Observer

“IRP” - Integrated Resource Planning

“KIUC” – Kauai Island Utility Cooperative

“kV” – kilovolts

“kw” – kilowatts

“kwh” – kilowatt hour

“LSFO” – Low Sulfur Fuel Oil

“MATS” - Mercury and Air Toxics Standards

“M&V” – Measurement & Verification

“MECO” – Maui Electric Company, Limited

“MPU” – Molokai Public Utilities, Inc.

“MSFO” – Medium Sulfur Fuel Oil

“MW” – Megawatts

“MWh” – Megawatt hour

“NARUC” – National Association of Regulatory Utility Commissioners

“NEM” – Net Energy Metering

“OOS” – Out of Service

“PBF” – Public Benefits Fee

“PPA” – purchase power agreement

“PUC” – Public Utilities Commission

“PGV” – Puna Geothermal Venture

“PV” - Photovoltaic

“PY” – Program Year

“RAM” – Revenue Adjustment Mechanism

“RBA” – Revenue Balancing Account

“RCx” – Retro Commissioning

“REI” – Renewable Energy Infrastructure

“REIP” – Renewable Energy Infrastructure Program

“RFP” – request for proposal

“RFS” – request for services

“RICE NESHAP” - Reciprocating Ignition Combustion Engines National Emission Standards for
Hazardous Air Pollutants

“RPS” – Renewable Portfolio Standards

“RSWG” – Reliability Standards Working Group

“SAIC” – Science Applications International Corporation

“SAIDI” - System Average Interruption Duration Index

“SAIFI” - System Average Interruption Frequency Index

“SBRRB” - Small Business Regulatory Review Board

“SLH” – Session Laws of Hawaii

“SNG” – synthetic natural gas

“SOP” – Statement of Position

“Special Fund” – Hawaii Public Utilities Commission Special Fund

“USF” – Universal Service Fund

“TAG” – Technical Advisory Group

“TGC” – The Gas Company

“TIER” – Times Interest Earned Ratio

“TPA” – Third Party Administrator

“TRB” – Total Resource Benefit

“TRS” – Telecommunications Relay Services

“WCPSC” – Western Conference of Public Service Commissioners

“WMTB” – Western Motor Tariff Bureau, Inc.

“WTI” – West Texas Intermediate

“YB” – Young Brothers, Limited

“YTD” – Year-to-Date

I. EXECUTIVE SUMMARY

This Annual Report is prepared pursuant to Section 269-5, Hawaii Revised Statutes (HRS), and is one of the few opportunities for the Hawaii Public Utilities Commission (Commission) to publicly share its goals and objectives, update its accomplishments, track data and trends in a comprehensive way, and shed light on the inner workings of the Commission through a summarization of key regulatory proceedings. To reflect the most current information where possible, please note that summaries of regulated utility reports, financial, and budget information reflect the State's fiscal year ended June 30, 2011, i.e., Fiscal Year ("FY") 2011. Discussions of dockets or other proceedings before the Commission reflect a status as of November 15, 2011.

The Commission is responsible for regulating 220 utility companies, 4 water carriers, 680 passenger carriers and 582 property carriers in the State (Section II.A. Diagram of Responsibility). During the FY, the Commission opened 369 new dockets relating to those regulated utilities and transportation companies, completed and disposed of 363 dockets from its total case load, and issued 846 decisions and orders (Section VII.A. Docket Proceedings).

In addition to the Commission's traditional duty to oversee and regulate public utilities to ensure the provision of essential and reliable service at just and reasonable rates, the Legislature has entrusted the Commission with increased authority and discretion in implementing the State's clean energy policies. Three major legislative mandates, the Renewable Portfolio Standard, the Energy Efficiency Portfolio Standard and the Public Benefits Fee are key energy policies driving the Commission (Section V. Clean Energy Legislative Mandates). Given the State's overall desire to promote clean energy policies to stabilize Hawaii's economy and move towards energy independence, the majority of the Commission's time and resources are devoted to this sector.

As the high cost of energy reverberates in every sector of Hawaii's economy, the Commission is working aggressively to review fixed priced contracts in an effort to "delink" electricity prices from oil costs and provide ratepayers with stable, long-term, and predictably priced contracts. However, the most cost-effective means of providing relief to the electricity consumer is through energy efficiency and conservation.

According to the American Council for an Energy-Efficient Economy's (ACEEE) 2011 State Energy Efficiency Scorecard, Hawaii is ranked twelfth in energy efficiency for a second year. The annual scorecard, in its fifth year, is a comprehensive ranking of states based on metrics capturing best practices and effective leadership in energy efficiency policy and program implementation. In the amount of electricity the state actually saved, Hawaii ranked third in terms of overall energy savings and tenth for its energy efficiency program and policies. The state scored zero points in the natural gas category because there is no natural gas service in Hawaii. As such, the inability to rate the state in that category, dropped Hawaii's overall ranking from ten to twelve.

To view the ACEEE report in its entirety, go to <http://aceee.org/research-report/e115>.

Public utilities, like the customers they serve and the society and economy in which they operate, continue to undergo significant changes due to rapid developments in technology, markets, economic conditions, consumer needs and environmental concerns. The Commission is not a static and reactive structure and acknowledges these changing conditions and the need to update regulatory practices and approaches to develop the requisite knowledge and skill sets to timely address and align the performance of regulated entities to serve the public interest in the most efficient and cost-effective manner. Therefore, adequate staffing and resources are of critical importance to the Commission's ability to carry out its statutory duties.

In response to Act 143, Session Laws of Hawaii 2006, the Commission conducted an in-depth review of its organization to develop a comprehensive plan to restructure and supplement the Commission and its resources to function more effectively and efficiently in light of, among other matters, changing regulatory conditions, duties, and requirements, and advances in technology. In FY 2011, the Commission, for the first time since the approval of its reorganization plan enacted in Act 177, Session Laws of Hawaii 2007, was appropriated funding for all positions recommended within the plan, increasing the Commission's total full-time, permanent position count to 62. However, a key component to the reorganization plan, the relocation of the Commission's entire Oahu office, was not approved. The relocation of the Commission's office is required to accommodate all existing and newly created reorganization positions and to meet the Commission's specific needs for a hearing room and adequate document storage space. Therefore, due to lack of adequate space, the Commission prioritized and focused on four (4) key reorganization positions to recruit for while backfilling existing positions. This, unfortunately, resulted in the Commission having to refrain from recruiting for seventeen (17) funded positions.

The Public Utilities Commission Special Fund ("Special Fund") is used to cover the operating expenses of the Commission and Consumer Advocate. The Special Fund sources of income include public utility fees, motor carrier fees, penalties and interest, application and intervention filing fees, Hawaii One Call Center fees and duplication fees. For FY 2011, the regulated utilities and transportation carriers paid \$15,785,126 in public utility fees and \$1,253,281 in motor carrier fees, respectively. The total revenues of the Commission's Special Fund were \$17,165,178 for FY 2011.

Pursuant to Section 269-33, HRS, any amount over \$1,000,000 remaining in the Special Fund at the end of each fiscal year is transferred to the State's general fund. For FY 2011, an excess balance of \$9,755,240 from the Special Fund was transferred to the general fund. This excess balance amount transfer includes the balance of the moneys appropriated through Act 180, SLH 2010, the 2010 Appropriations Act (Section VI.A. Fiscal Information).

In FY 2011, the Commission's ARRA grant allowed for the staffing of two (2) temporary positions and twenty (20) training opportunities attended by a total of 116 staff (many staff attended more than one training opportunity). Commission staff, through these training opportunities, increased their technical knowledge specifically in the evolving electricity industry and was fortunate enough to be trained by experts from entities such as the National Association of Regulatory Utility Commissioners (NARUC), New Mexico State University's Center for Public Utilities, National Regulatory Research Institute, U. S. Department of Energy, Michigan State University Institute of Public Utilities, National Renewable Energy Laboratory, and Sandia National Laboratories, among others.

As we enter FY 2012, the Commission continues to put a high priority on technical staff training in addition to a renewed focus on strategic planning in establishing the Commission as a key policy leader and driver, particularly in the area of energy, and to fulfill the Commission's primary purpose as an effective regulator to align the performance of regulated companies with the public interest.

II. INTRODUCTION

The Public Utilities Commission of the State of Hawaii submits this Annual Report pursuant to Section 269-5, Hawaii Revised Statutes (HRS). This report summarizes the Commission's accomplishments, state its goals and objectives and track data and trends in a comprehensive way. Typically, the report would cover the fiscal year from July 1, 2010 to June 30, 2011. As this is one of the few opportunities for the Commission to publicly share and shed light on the inner workings of the Commission, to reflect the most current information where possible, the summarization of key regulatory dockets, discussion on other proceedings before the Commission and other narratives are as of November 15, 2011. Regulated utility reports, financial, and budget information reflect the State's fiscal year ending June 30, 2011, i.e., Fiscal Year ("FY") 2011.

The Commission is responsible for regulating all chartered, franchised, certificated, and registered public utility companies that provide electricity, gas, telecommunications, private water and sewage, and motor and water carrier transportation services in the State. The Commission has statutory authority to establish and enforce applicable state statutes, administrative rules and regulations, and to set policies and standards.

It also oversees the administration of a one call center that provides advance warning to excavators of the location of subsurface installations in the area of an excavation in order to protect those installations from damage; and the public benefits fee surcharge, established in 2010, which is used to fund and support energy efficiency programs and services implemented by an independent third party administrator on the islands of Oahu, Maui, Molokai, Lanai, and Hawaii.

Public utilities, like the customers they serve and the society and economy in which they operate, continue to undergo significant changes due to rapid developments in technology, markets, economic conditions, consumer needs and environmental concerns. The Commission is not a static and reactive structure and acknowledges these changing conditions and the need to update regulatory practices and approaches to develop the requisite knowledge and skill sets to timely address and align the performance of regulated entities to serve the public interest in the most efficient and cost-effective manner to provide customers with reliable services at reasonable rates.

In addition to the Commission's traditional duty to oversee and regulate public utilities to ensure the provision of essential and reliable service at just and reasonable rates, the Legislature has entrusted the Commission with increased authority and discretion in implementing the State's clean energy policies. Three major legislative mandates, the Renewable Portfolio Standard, the Energy Efficiency Portfolio Standard and the Public Benefit Fee are key energy policies driving the Commission. Given the State's overall desire to promote clean energy policies to stabilize Hawaii's economy and move towards energy independence, the majority of the Commission's time and resources are devoted to this sector.

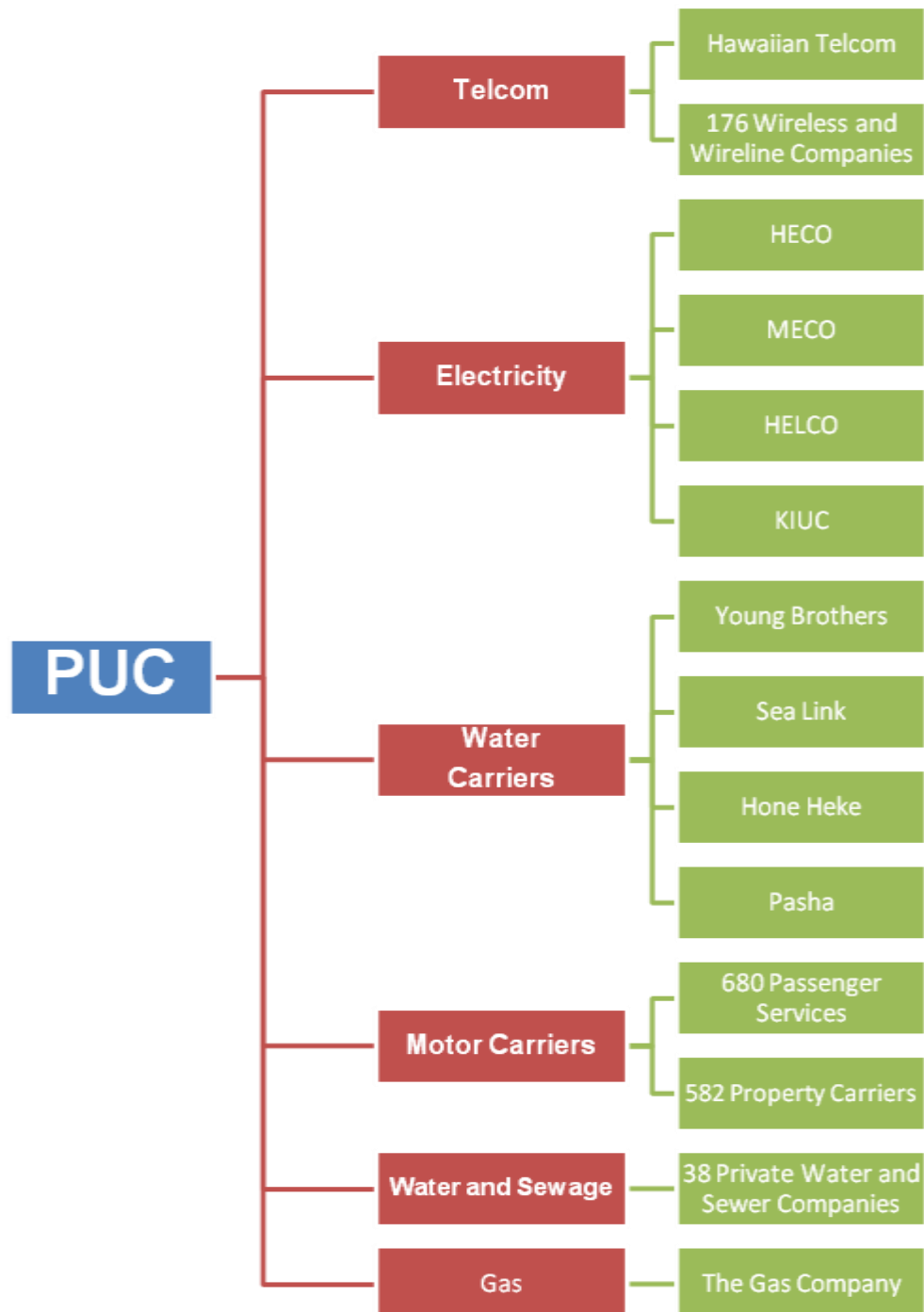
As described in greater detail herein, the Commission has aggressively sought to implement the State's energy policy through the implementation of net energy metering, feed-in-tariffs, renewable energy infrastructure surcharge program, decoupling, third party administration of energy efficiency programs, energy efficiency portfolio standards framework, and an update of the integrated resource planning process to incorporate clean energy scenario planning, among other matters.

Again, despite these additional policy-making and implementation duties, the Commission's traditional duty to oversee and regulate public utilities so that they provide reliable

service at just and reasonable rates to protect consumers remain, and the Commission must continue to balance its traditional regulatory duties with the need to implement energy policy.

A. DIAGRAM OF RESPONSIBILITY

The Commission is responsible for regulating all chartered, franchised, certificated, and registered public utility companies that provide electricity, gas, telecommunications, private water and sewage, and motor and water carrier transportation services in the State of Hawaii. The Commission has statutory authority to establish and enforce applicable state statutes, administrative rules and regulations, and to set policies and standards.



III. COMMISSION HISTORY AND COMMISSIONERS

A. HISTORY

The Commission was established in 1913 by Act 89, SLH 1913, as a part-time, three-member body with broad regulatory oversight and investigative authority over all public utility companies doing business in the Territory of Hawaii. This act, amended over the years and codified in Chapter 269, HRS, is the basis for utility regulation in Hawaii. The Commission's authority to regulate various classifications of motor carriers of passengers and property is derived from the Hawaii Motor Carrier Law (Chapter 271, HRS) enacted in 1961. Responsibility for all commercial water transportation carriers of persons and property within the State is derived from the Hawaii Water Carrier Act of 1974 (Chapter 271G, HRS). Chapter 6-61, "Rules of Practice and Procedure before the Public Utilities Commission," of the Hawaii Administrative Rules ("HAR") sets forth general procedural requirements for intervention and participation in proceedings before the Commission. Other HARs and general orders of the Commission set forth the standards, rules, and other procedures governing electric, gas, telecommunications, private water and sewage, and motor and water carrier transportation services.

Today, the Commission is a full-time body comprised of three (3) Commissioners. The Governor, with the consent of the State Senate, appoints the Commissioners. They each serve six-year terms on a staggered basis.

B. COMMISSIONERS

Hermína M. Morita, Chair¹



Hermína M. Morita was appointed to the Public Utilities Commission and named Chair of the Commission on February 3, 2011 by Governor Neil Abercrombie for a term to expire on June 30, 2014. Upon her confirmation on March 14, 2011, Chair Morita resigned from her position in the State of Hawaii House of Representatives representing East and North Kauai to Chair the Commission on March 15, 2011. She served as a Legislator for fifteen years, thirteen years as the Chair of the House Energy & Environmental Protection Committee. Prior to her experience as a Legislator, Chair Morita worked as a business manager in the retail, construction and visitor sectors. She also served on the Kauai Planning Commission and Kauai Police Commission.

¹Chair Morita fills the vacancy created through the resignation of Commission Leslie H. Kondo on January 10, 2011.



Carlito P. Caliboso, Commissioner²

Carlito P. Caliboso was appointed to the Public Utilities Commission by Governor Linda Lingle on April 30, 2003. In 2004, he was reappointed to a full term through June 30, 2010. In 2010, he was reappointed to another term, which he may serve through April 29, 2015. He served as Chairman of the Commission from April 2003 to March 2011.

Commissioner Caliboso is a member of the Board of Directors of the National Association of Regulatory Utility Commissioners ("NARUC"), which is an association representing the State public service commissioners who regulate essential utility services throughout the country. He served as President of the Western Conference of Public Service Commissioners ("WCPSC") from 2008-2009. From 2004 to 2009, Commissioner Caliboso served two terms on the Federal Communication Commission's ("FCC") Intergovernmental Advisory Committee ("IAC"), which is comprised of 15 elected and appointed officials of municipal, county, state, and tribal governments, most recently as the Vice Chair of the IAC. In 2010, the FCC appointed him to its FCC-State Joint Conference on Advanced Telecommunications Services.

Prior to joining the Commission, Mr. Caliboso practiced law in Hawaii for over 11 years. His primary areas of practice were in business and transactional matters. Commissioner Caliboso earned a Bachelor of Business Administration degree from the College of Business Administration at the University of Hawaii with a double major in Finance and in Management in 1984; a Juris Doctor degree from the William S. Richardson School of Law at the University of Hawaii in 1991, and an Executive MBA degree from the Shidler College of Business at the University of Hawaii in 2009.



John E. Cole, Commissioner

John E. Cole was appointed to the Commission by Governor Linda Lingle on April 24, 2006 for a term to expire on June 30, 2012.

Prior to his appointment, Commissioner Cole served as Executive Director of the Division of Consumer Advocacy of the Hawaii State Department of Commerce and Consumer Affairs. In May 2005, Commissioner Cole was appointed as a member of the FCC's Consumer Advisory Committee to advise the FCC on consumer issues within the FCC's jurisdiction and to facilitate the participation of consumers in proceedings before the FCC. He is also a member of NARUC and serves on NARUC's Committee on Energy Resources and the Environment, and the Committee on Consumer Affairs. In 2010, Commissioner Cole accepted an invitation to participate in the State Energy Efficiency Action Network working group on Customer Information and Behavior.

Commissioner Cole earned a bachelor's degree in biology from UH-Manoa and a law degree from Washington University School of Law.

²Mr. Caliboso resigned from the Commission effective September 1, 2011. This vacancy was filled on September 15, 2011 through an interim appointment by Governor Neil Abercrombie when Michael E. Champley was appointed as Commissioner subject to Article V, Section 6 of the Constitution of the State of Hawaii.

C. ADMINISTRATION AND OFFICES

The Commission is comprised of three commissioners and, as of June 30, 2011, a staff of 39 employees. These employees include an administrative director, attorneys, engineers, auditors, researchers, investigators, neighbor island representatives for Kauai, Maui County and Hawaii, documentation staff, and clerical staff. The Commission has four offices located throughout the State:

OAHU: Public Utilities Commission
Kekuanaoa Building
465 South King Street, #103
Honolulu, HI 96813
Phone: (808) 586-2020
Fax: (808) 586-2066

KAUAI: PUC Kauai District Office
3060 Eiwa Street, #302-C
Lihue, HI 96766
Phone: (808) 274-3232
Fax: (808) 274-3233

MAUI: PUC Maui District Office
State Office Building #1
54 S. High Street, #218
Wailuku, HI 96793
Phone: (808) 984-8182
Fax: (808) 984-8183

HAWAII: PUC Hawaii District Office
688 Kinoole Street, #106-A
Hilo, HI 96720
Phone: (808) 974-4533
Fax: (808) 974-4534

Email: Hawaii.PUC@hawaii.gov
Web: www.hawaii.gov/budget/puc/

For administrative purposes, the Commission is placed under the Department of Budget and Finance.³

³Haw. Rev. Stat. §§ 26-8, 26-35, 269-2, as amended.

IV. GOALS AND OBJECTIVES OF COMMISSION

As we enter FY 2012, the Commission continues to put a high priority on technical staff training in addition to a renewed focus on strategic planning in establishing the Commission as a key policy leader and driver, particularly in the area of energy, and to fulfill the Commission's primary purpose as an effective regulator to align the performance of regulated companies with the public interest. These strategic planning sessions will not be scheduled until early 2012, therefore, the description of the Commission's primary purpose, long-term and short-term goals have not been revised since the last year's annual report.

A. PRIMARY PURPOSE

The Commission's primary purpose is to ensure that regulated companies efficiently and safely provide their customers with adequate and reliable services at just and reasonable rates, while providing regulated companies with a reasonable opportunity to earn a fair rate of return.

B. LONG-TERM GOALS

Modernize and re-organize the Commission as needed to adapt to changes in technology, markets, economic conditions, consumer needs, and environmental concerns to improve the efficiency and effectiveness of the Commission.

Foster and encourage competition or other alternatives where reasonably feasible in an effort to provide consumers with meaningful choices for services at lower rates that are just and reasonable.

Promote and encourage efficient and reliable production and delivery of all utility services. Promote and encourage efficient and reliable electricity generation, transmission and distribution.

Promote and encourage the use of alternative, renewable, and clean energy resources for the production of electricity to increase the efficiency, reliability, and sustainability of electricity generation and supply for consumers.

Assist in creating an environment conducive for healthy economic growth and stability in the public interest.

C. SHORT-TERM GOALS

Increase the transparency of the regulatory process and public access to the Commission to ensure that the Commission efficiently, independently, fairly, and impartially regulates public utilities.

Streamline and modernize the regulatory process whenever reasonably feasible to increase the efficiency of the Commission and regulated utilities.

Re-evaluate and update internal Commission staff procedures to increase the efficiency and effectiveness of Commission activities.

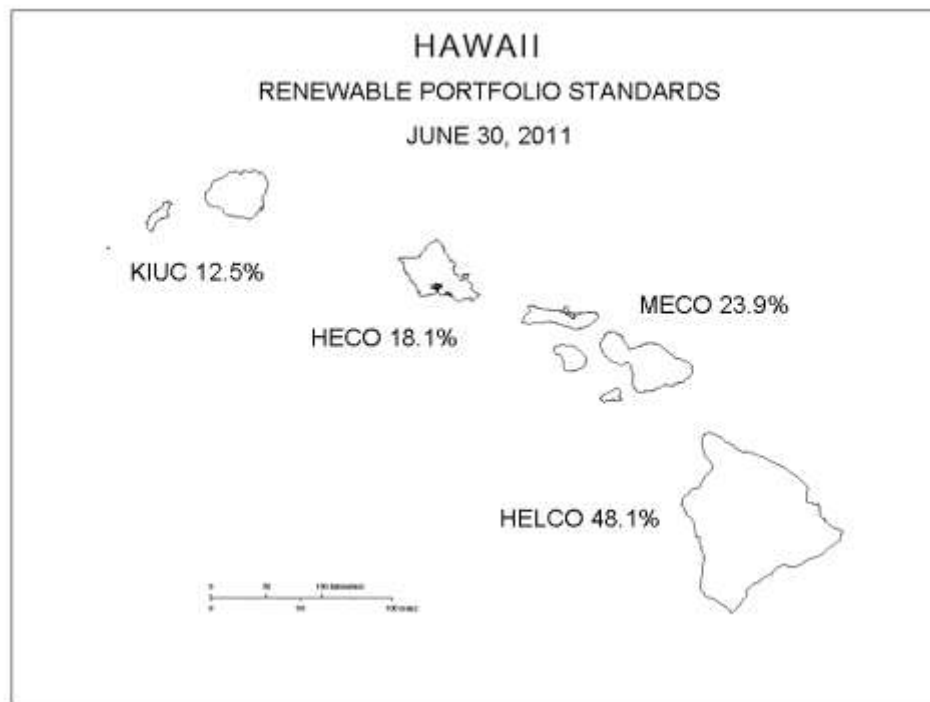
V. CLEAN ENERGY LEGISLATIVE MANDATES

A. RENEWABLE PORTFOLIO STANDARDS

Today's Renewable Portfolio Standards ("RPS") requirements, as codified in Hawaii Revised Statutes ("HRS") §§ 269-91 through 269-95 call for each electric utility company selling electric power in Hawaii to meet a graduated RPS plan culminating at forty percent of net electricity sales by December 31, 2030. RPS is defined in local statute as "the percentage of electrical energy sales that is represented by renewable electrical energy," where "renewable electrical energy" is currently defined for RPS purposes as both electrical energy generated from renewable energy sources and electrical energy savings from either renewable displacement technologies, off-set technologies, or energy efficiency technologies. However, the law states that electrical energy savings from any technology source will no longer be eligible to count toward meeting a utility's RPS requirements starting January 1, 2015. Significant provisions of Hawaii's RPS law are included:

§269-92 Renewable portfolio standards.

- (a) Each electric utility company that sells electricity for consumption in the State shall establish a renewable portfolio standard of:
 - (1) Ten per cent of its net electricity sales by December 31, 2010;
 - (2) Fifteen per cent of its net electricity sales by December 31, 2015;
 - (3) Twenty-five per cent of its net electricity sales by December 31, 2020; and
 - (4) Forty per cent of its net electricity sales by December 31, 2030.



For the docket proceeding discussing the most recent developments concerning RPS see Section VII.C.1.a “Renewable Portfolio Standards Law – Docket No. 2007-0008.”

Power Purchase Agreements approved since July 1, 2010

<u>Docket No.</u>	<u>Island</u>	<u>Project</u>	<u>Size</u>	<u>Technology</u>
2010-0179	Kauai	Kapaa Solar	1 MW	Solar
2010-0279	Maui	Kaheawa II	21 MW+Battery	Wind
2010-0307	Kauai	Poipu Solar, LLC	3 MW	Solar
2011-0051	Oahu	Kalaeloa Solar II	5 MW	Solar
2011-0060	Maui	Auwahi Wind Energy LLC	21 MW + Battery	Wind
		Total	51 MW	

Power Purchase Agreements filed this year and pending before the Commission as of November 2011

<u>Docket No.</u>	<u>Island</u>	<u>Project</u>	<u>Size</u>	<u>Technology</u>
2011-0015	Oahu	IC Sunshine LLC (solar PV farm in Campbell Industrial Park)	5 MW	Solar
2011-0040	Big Island	Puna Geothermal Expansion	8 MW	Geothermal
2011-0032	Kauai	Green Energy Team LLC	6.7 MW	Biomass
2011-0180	Kauai	McBryde Sugar	6 MW	Solar + Battery
2011-0185	Oahu	Kapolei Sustainable Energy Park	1 MW	Solar
2011-0224	Oahu	Kawailoa Wind	70 MW	Wind
		Total	96.7 MW	

B. NET ENERGY METERING

In 2001, Hawaii first enacted a Net Energy Metering law that was set in HRS §§ 269-101 through 269-111 in order to provide the legal framework to allow electric utility customers with personal electric generation capacity to feed excess energy back to electric utilities. Significant portions of Hawaii's current Net Energy Metering law are included below:

§269-102 Standard contract or tariff; rate structure.

- (a) Every electric utility shall develop a standard contract or tariff providing for net energy metering and shall make this contract available to eligible customer-generators, upon request, on a first-come-first-served basis until the time that the total rated generating capacity produced by eligible customer-generators equals .5 per cent of the electric utility's system peak demand; provided that the public utilities commission may modify, by rule or order, the total rated generating capacity produced by eligible customer-generators; provided further that the public utilities commission shall ensure that a percentage of the total rated generating capacity produced by eligible customer-generators shall be reserved for electricity produced by eligible residential or small commercial customer-generators. The public utilities commission may define, by rule or order, the maximum capacity for eligible residential or small commercial customer-generators. Notwithstanding the generating capacity requirements of this subsection, the public utilities commission may evaluate, on an island-by-island basis, the applicability of the generating capacity requirements of this subsection and, in its discretion, may exempt an island or a utility grid system from the generating capacity requirements.
- (b) Each net energy metering contract or tariff shall be identical, with respect to rate structure, to the contract or tariff to which the same customer would be assigned if the customer was not an eligible customer-generator. The charges for all retail rate components for eligible customer-generators shall be based exclusively on the eligible customer-generator's net kilowatt-hour consumption over a monthly billing period. Any new or additional demand charge, standby charge, customer charge, minimum monthly charge, interconnection charge, or other charge that would increase an eligible customer-generator's costs beyond those of other customers in the rate class to which the eligible customer-generator would otherwise be assigned are contrary to the intent of this section, and shall not form a part of net energy metering contracts or tariffs.
- (c) The public utilities commission may amend the rate structure or standard contract or tariff by rule or order.

For the docket proceeding discussing the most recent developments concerning Net Energy Metering see Section VII.C.1.d "Net Energy Metering – Docket No. 2006-0084."

Current Net Energy Metered Systems Installed as of November 2011

<u>Island</u>	<u>NEM Installed Size (MW)</u>
Oahu	29.8
Hawaii Island	7
Maui	7.11
Lanai	.05
Molokai	.64
Kauai	2.8
Total	47.4

Current Feed in Tariff in queue as of November 2011 – Total 35.44 MW

<u>System</u>	<u>Tier 1 MW</u>	<u>Tier 2 MW</u>
HECO	.421	29.1
MECO	.096	3.3
HELCO	.027	2.5
Total	.544	34.9

C. PUBLIC BENEFITS FEE

The Legislature has expressly provided for the use of demand-side management fees initiated by the Commission and collected by local electric utilities, which today makes up Hawaii's Public Benefits Fee ("PBF") law under HRS §§ 269-121 through 269-125. Today's PBF law, in relevant part, is included:

§269-121 Public benefits fee authorization.

- (a) The public utilities commission, by order or rule, may require that all or a portion of the moneys collected by Hawaii's electric utilities from its ratepayers through a demand-side management surcharge be transferred to a third-party administrator contracted by the public utilities commission. The moneys transferred shall be known as the public benefits fee.
- (b) The public benefits fee shall be used to support energy-efficiency and demand-side management programs and services, subject to the review and approval of the public utilities commission. These moneys shall not be available to meet any current or past general obligations of the State; provided that the State may participate in any energy-efficiency or demand-side management programs and services on the same basis as any other electric consumer.

For the docket proceeding discussing the most recent developments concerning the PBF see Section VII.C.1.f "Third Party Administration of Energy Efficiency Programs – Docket No. 2007-0323."

As of June 30, 2011, Hawaii Energy completed its second program year. Preliminary Highlights Results of the PY 2010 are presented below and are subject to Evergreen's independent review.

According to Hawaii Energy's report, "Ratepayers receiving the incentives invested \$99.7M of their own money to implement the rebated measures. The total customer energy savings (unverified at present) from these rebated measures was 142.2 GWh, with a cost savings of \$48.1M shown in Table 1. Over the lifetime of the rebated measures, the customer energy savings would be 1,417 GWh, with a cost savings of \$473.2M, yielding a 474% return on investment (in 2010 dollars at 2010 electric rates)."

In their draft PY 2010 Annual Report, Hawaii Energy discussed the relationship of Customer, System, and Program Level Savings. The three levels are used to show how energy and demand savings are credited at the customer's meter (Customer Level Savings), at the utility system generation level (System Level Savings) and at the PBFA Contract level (Program Level Savings).

1. Customer Level Savings (Gross at Meter) – This savings figure is the gross change in energy consumption at the customer meter that results directly from program-promoted actions taken by program participants. The savings are determined by direct metering, engineering calculations, or measurement and verification of prior installations of the particular savings

measure. This is the savings level defined in the Program's Technical Resource Manual (TRM).

2. System Level Savings (Gross Generated) – This savings figure is realized at the utility system level and includes the transmission, distribution and generation station energy losses between the end-use customer and the utility generating units. System Level Savings has been termed Gross Level Savings in previous reports.
3. Program Level Savings (Net Generated) - This savings figure shows the amount of energy reductions determined to be directly attributed to PBFA Program actions by separating out the impacts that are a result of other influences, such as consumer self-motivation or free-riders. Free-riders are rate-payers or participants who received an incentive and/or education by the Program, but the incentive and/or education did not play a role in their decision to purchase the savings measure. These rate-payers would have taken action or purchased the energy efficient item regardless of the Program and therefore, program level savings removes their participation. The Net-to-Gross adjustment figure for PY 10 operations across all programs and counties is 73%.

PY 2010 Annual Report

In the table below, **Customer Level Savings** are reflected in the PY 2010 Customer Energy Cost Savings, while in the table that reflects the Cumulative Annual Electric Savings, **Program Level Savings** are shown.

PY 2010 Customer Energy Cost Savings
(based on October 2011 Effective Rates)

First Year Energy Customer Energy Cost Savings

County	Total Cost Savings	kWh	\$/kWh
Honolulu	\$ 35,483,899	110,185,820	\$ 0.322
Hawaii	\$ 6,821,574	16,143,096	\$ 0.423
Maui	\$ 5,781,730	15,832,399	\$ 0.365
Total	\$ 48,087,203	142,161,315	\$ 0.338

Equipment Lifetime Energy Customer Energy Cost Savings

County	Total Cost Savings	kWh	\$/kWh
Honolulu	\$ 362,869,498	1,135,476,497	\$ 0.320
Hawaii	\$ 54,460,705	128,750,744	\$ 0.423
Maui	\$ 55,887,132	152,439,811	\$ 0.367
Total	\$ 473,217,335	1,416,667,052	\$ 0.334

Under its contract with the Commission, Hawaii Energy agreed to the following performance indicators for PY 2010:

Cumulative Annual Electric Energy Savings

The targets for the residential and business (C&I) categories were 71,245,000 kWh and 61,370,000 kWh, respectively. In PY 2010, Hawaii Energy reported achieving 80% of the residential target and 95% of the C&I target. Savings goals would have been exceeded using past savings per measure figures, however, savings per lamp for compact fluorescents (CFL) were reduced by 40% this year based on recent nationwide M&V studies.

Peak Demand

The Peak Demand target was designed to encourage Hawaii Energy to achieve superior levels of peak summer demand savings (sum across all measures of the energy savings occurring weekdays between 5pm and 9 pm during the months of August to November divided by the number of hours in that period). The target for PY 2010 was 23,126 kW; Hawaii Energy reported achieving 17,011 kW. The reduction in CFL savings as discussed above also contributed to Hawaii Energy's reduced peak demand results.

Total Resource Benefit (TRB)

The TRB is designed to encourage Hawaii Energy to maximize energy-related and other resource benefits by implementing energy efficient measures and projects that provide persistent energy and demand savings.

The PY 2010 TRB target was set at \$148,596,954; Hawaii Energy reported a TRB of \$134,710,809.

Broad Participation-Island Equity

The Commission included this performance indicator to ensure program benefits accrue to each Island commensurate with contributions from each Island to the PBF. The PY 2010 target was set "to create direct customer energy savings within 20% of the proportion of each County's total contribution to the PBF in PY 2010;" Hawaii Energy reported 104%, 85% and 91% for Oahu, Maui County and Hawaii County, respectively.

Market Transformation

The Market Transformation performance indicator was designed to encourage lasting change with regard to how energy is used in businesses and residences. The PY 2010 target included State demonstration projects; implementation of a Retro-commissioning program and the development of at least four (4) partnerships with non-profits and community organizations that can carry energy efficiency goals into the community. Hawaii Energy reported no State demonstration projects; the successful implementation of a Retro-commissioning program and the development of five (5) community partnerships.

	PY 2010 Actual	PY 2010 Targets	YTD % of Target PY 2010
Key Performance Metrics			
Annual Energy Savings Impacts (Net Generation Level)			
Residential (MWh)	56,908	71,245	80%
Business (MWh)	58,066	61,370	95%
Peak Demand (kW)	17,011	23,126	74%
TRB	\$134,710,809	\$148,596,954	91%
Island Equity			
Oahu (kWh)	89,420,180	85,913,509	104%
Maui County (kWh)	12,708,774	14,921,344	85%
Hawaii County (kWh)	12,845,058	14,139,158	91%
Market Transformation (Applications Completed)			
State Demonstration Projects	0	10	0%
Launch Retro Commission (RCx) Program	Completed		100%
Community Partnerships	5	4	125%

PY 2010 Program Financials:

For the program year ended June 30, 2011, Hawaii Energy reported expensing just over \$5 million in program administration expenses, while distributing in excess of \$13 million in residential and C&I incentives.

	PY 2010 Actual	PY 2010 Targets	YTD % of Target PY 2010
Financials			
Total Non-Incentives ¹	\$5,054,077	\$5,092,150	99%
Total Incentives	\$13,675,272	\$15,025,382	91%
Total Program Costs	\$18,729,349	\$20,117,532	93%

¹Total Non Incentive Billed and Budgets reflect the deduction of performance incentive fees for the award pool (\$700,000).

Source: Hawaii Energy preliminary PY 2010 Performance Award Claim Summary 11/1/11.

Additional information may be found on the Hawaii Energy website at www.hawaiienergy.com

D. ENERGY EFFICIENCY PORTFOLIO STANDARDS

The State's Energy Efficiency Portfolio Standards ("EEPS") law is set out in HRS § 269-96. EEPS is a standard or set of standards used to measure the reduction of electricity usage in the State through energy efficiency programs, such as demand reduction programs and device efficiency upgrades. The EEPS law holds as follows:

[§269-96] Energy-efficiency portfolio standards.

- (a) The public utilities commission shall establish energy-efficiency portfolio standards that will maximize cost-effective energy-efficiency programs and technologies.
- (b) The energy-efficiency portfolio standards shall be designed to achieve four thousand three hundred gigawatt hours of electricity use reductions statewide by 2030; provided that the commission shall establish interim goals for electricity use reduction to be achieved by 2015, 2020, and 2025 and may also adjust the 2030 standard by rule or order to maximize cost-effective energy-efficiency programs and technologies.
- (c) The commission may establish incentives and penalties based on performance in achieving the energy-efficiency portfolio standards by rule or order.
- (d) The public utilities commission shall evaluate the energy-efficiency portfolio standard every five years, beginning in 2013, and may revise the standard, based on the best information available at the time, to determine if the energy-efficiency portfolio standard established by this section remains effective and achievable. The commission shall report its findings and revisions to the energy-efficiency portfolio standard, based on its own studies and other information, to the legislature no later than twenty days before the convening of the regular session of 2014, and every five years thereafter.
- (e) Beginning in 2015, electric energy savings brought about by the use of renewable displacement or off-set technologies, including solar water heating and sea-water air-conditioning district cooling systems, shall count toward this standard.

For the docket proceeding discussing the most recent developments concerning EEPS see Section VII.C.1.b "Energy Efficiency Portfolio Standards Law – Docket No. 2010-0037."

VI. ADMINISTRATIVE UPDATE

In response to Act 143, Session Laws of Hawaii 2006, the Commission conducted an in-depth review of its organization to develop a comprehensive plan to restructure and supplement the Commission and its resources to function more effectively and efficiently in light of, among other matters, changing regulatory conditions, duties, and requirements, and advances in technology. In FY 2011, the Commission, for the first time since the approval of its reorganization plan enacted in Act 177, Session Laws of Hawaii 2007, was appropriated funding for all positions recommended within the plan, increasing the Commission's total full-time, permanent position count to 62. However, a key component to the reorganization plan, the relocation of the Commission's entire Oahu office, was not approved. The relocation of the Commission's office is necessary to accommodate all existing and newly created reorganization positions and to meet the Commission's specific needs for a hearing room and adequate document storage space. Presently, there is no sufficient State owned space available that meets the Commission's Oahu office space requirement. Therefore, due to lack of adequate space, the Commission prioritized and focused on four (4) key reorganization positions to recruit for, i.e., Information Technology Specialist, Engineer, Compliance and Consumer Affairs Chief and Legal Assistant, while backfilling existing positions. This, unfortunately, resulted in the Commission having to refrain from recruiting for seventeen (17) funded positions.

The Public Utilities Commission Special Fund ("Special Fund") established under Section 269-33 is used to cover all Commission and Consumer Advocate expenses incurred in the administration of Chapters 269, 271, 271G, 269E and 486J. The Special Fund sources of income include public utility fees, motor carrier fees, penalties and interest, application and intervention filing fees, Hawaii One Call Center fees and duplication fees from entities under its jurisdiction pursuant to Section 269-30, Hawaii Revised Statutes. The public utility fees are based on the entities' gross income from the preceding year and may be recovered via a surcharge from the entities' customers, i.e., ratepayers. All moneys in excess of \$1,000,000 remaining on balance in the Special Fund on June 30 of each year lapse to the State General Fund pursuant to Section 269-33 (d).

During FY 2011, the Commission was able to recruit and fill the following positions:

- PUC Attorney;
- American Recovery and Reinvestment Act of 2009 ("ARRA") Electricity Specialist (Temporary Position) ;
- Chairperson (Appoint by the Governor; Confirmed by the State Senate);
- Chief Legal Counsel;
- Chief Researcher (a.k.a., Chief of Policy and Research);
- Chief Clerk (Internal Promotion); and
- Office Assistant IV (Internal Promotion).

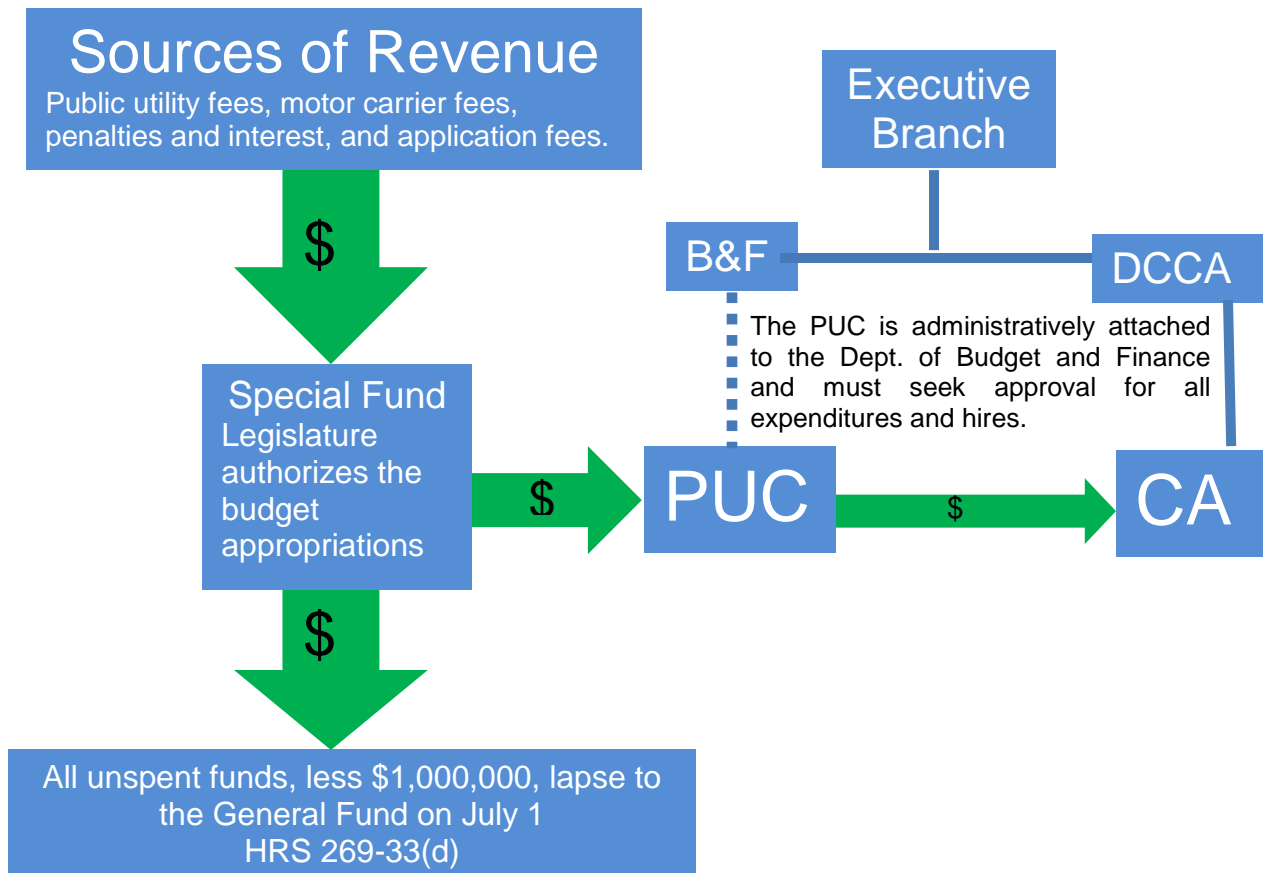
Additionally, as of November 2011, five (5) months into FY 2012, the Commission has or expects to have filled seven (7) more positions, one of which is a Commissioner appointed by the Governor on an interim basis, and three (3) of which are internal promotions.

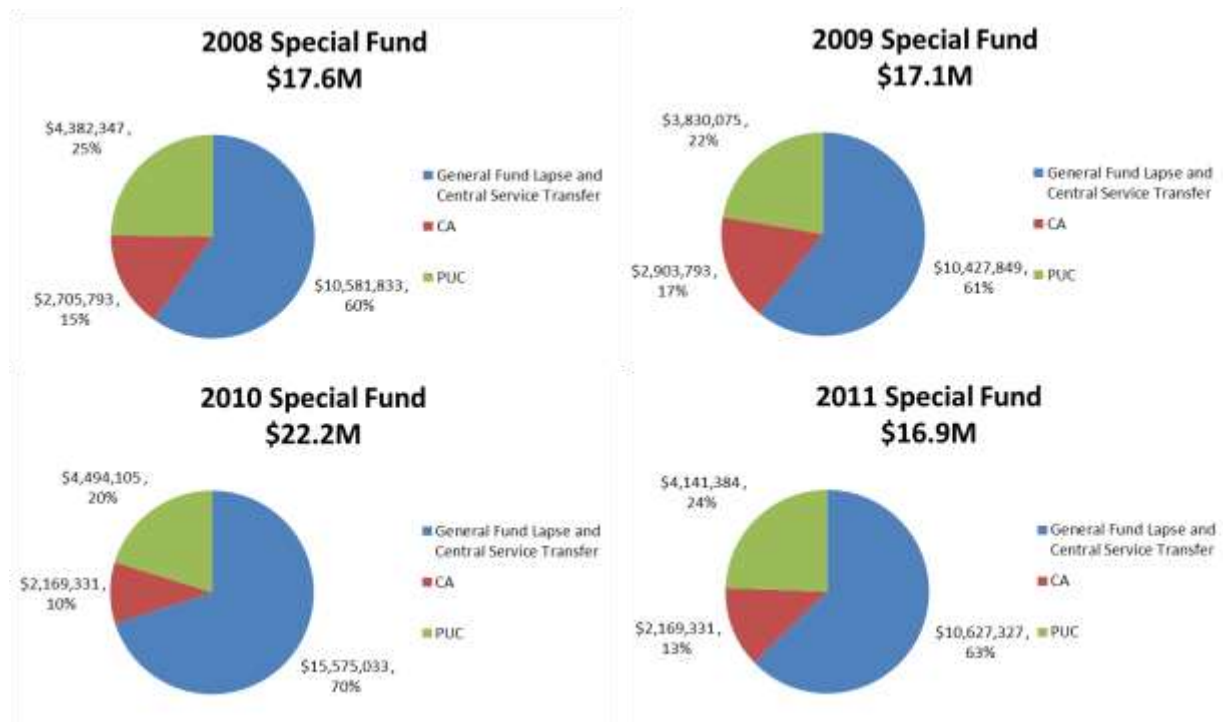
In FY 2011, the Commission's ARRA Grant allowed for the staffing of two (2) temporary positions and twenty (20) training opportunities attended by a total of 116 staff (many staff attended more than one training opportunity). Commission staff, through these training opportunities, increased their technical knowledge specifically in the evolving electricity industry and was fortunate enough to be trained by experts from entities such as the National Association of Regulatory Utility Commissioners (NARUC), New Mexico State University's Center for Public Utilities, National Regulatory Research Institute, United States Department of Energy, Michigan

State University Institute of Public Utilities, National Renewable Energy Laboratory (NREL), and Sandia National Laboratories (SNL), among others.

In FY 2012, the Commission continues to put a high priority on attending and planning expert technical training in electricity and other areas under the Commission's jurisdiction. In FY 2012 and beyond, technical staff training, in addition to a renewed focus on strategic planning, and the ability to fully utilize Special Fund to advance the interest of the public utility ratepayer and enhance the performance of Hawaii's regulated utilities, is and will continue to be critical in establishing the Commission as a key policy leader and driver, particularly in the area of energy, and to fulfill the Commission's primary purpose as an effective regulator to align the conduct of regulated companies with the public interest.

A. FISCAL INFORMATION





The Public Utilities Commission Special Fund ("Special Fund") is used to cover the operating expenses of the Commission and Consumer Advocate. The Special Fund's sources of income include public utility fees, motor carrier fees, penalties and interest, application and intervention filing fees, Hawaii One Call Center fees and duplication fees. For the Fiscal Year, the regulated utilities and transportation carriers paid \$15,785,126 in public utility fees and \$1,253,281 motor carrier fees, respectively. The total revenues of the Commission's Special Fund were \$17,165,178.

The expenses of the Commission include personnel costs and other current expenses. The Commission's other major current expenses include transfers from its Special Fund to the Consumer Advocate to fund its operations.

For the Fiscal Year, the Commission received an appropriation of \$9,249,331 for personnel services and other current expenses as shown in the table below. Allotments for the Commission's personnel services expenses were \$3,913,770 for 51 authorized permanent positions. The Commission was allotted \$5,335,561 for other current expenses. The Commission's other current expenses allotment included \$2,169,331 that was transferred to the Consumer Advocate to cover its operating expenses and \$858,259 that was transferred to Central Services pursuant to Section 36-37, HRS.

The Commission also received the following appropriations out of the Special Fund as shown in the table below:

	<u>FY 2010-11 Appropriation</u>	<u>FY 2010-11 Allotment</u>
Personnel Services	\$ 3,913,770	\$ 3,913,770
Other Current Expense	<u>5,335,561</u>	<u>5,335,561</u>
Total	\$9,249,331	\$9,249,331

Pursuant to Section 269-33, HRS, any amount over \$1,000,000 remaining in the Special Fund at the end of each fiscal year is transferred to the State's general fund. For the Fiscal Year, an excess balance of \$9,755,240 from the Special Fund was transferred to the general fund. This excess balance amount includes the balance of the moneys appropriated through Act 180, SLH 2010 (2010 Appropriations Act).

VII. REGULATORY ISSUES AND PROCEEDINGS

A. DOCKET PROCEEDINGS

As of July 1, 2010, 154 pending dockets were carried over from prior years, and 369 new dockets were opened during the Fiscal Year. Thus, during the Fiscal Year, a total of 523 dockets were before the Commission for review and consideration. Of the 523 dockets, 363 or approximately 69 per cent of the dockets were completed by the end of the Fiscal Year.

As of June 30, 2011, 160 dockets were pending, including 40 dockets carried over from years prior to the Fiscal Year and 120 dockets that were opened during the Fiscal Year.

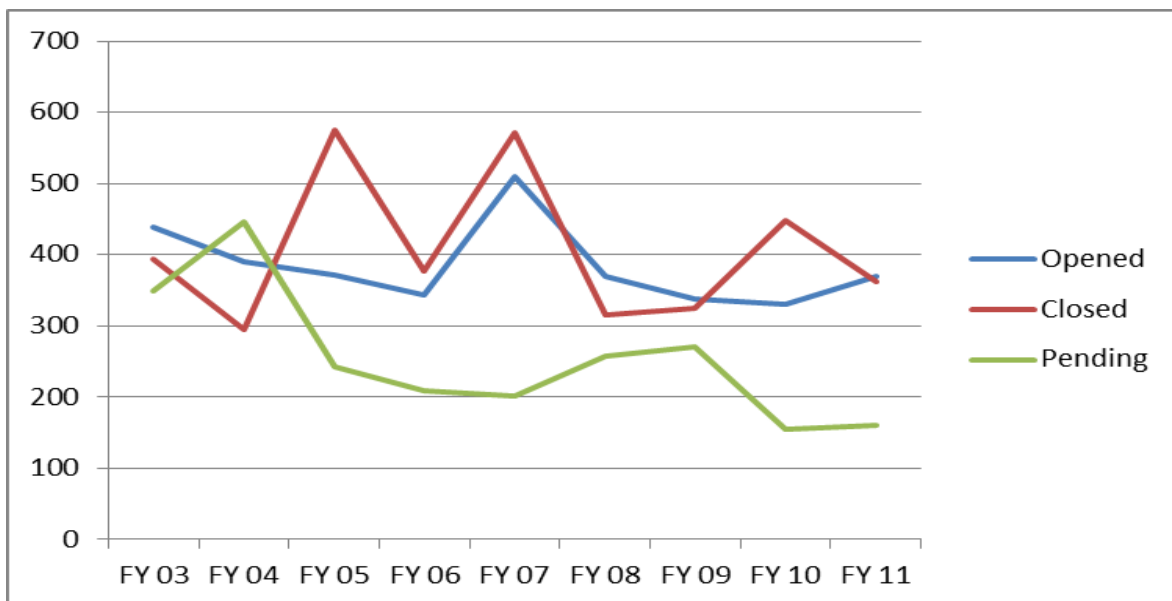
The following table summarizes the Commission's dockets over the past three (3) fiscal years.

DOCKETS FILED, COMPLETED AND PENDING FISCAL YEARS 2008-09, 2009-10 AND 2010-11

<u>Utilities</u>	FY 09				FY 10			
	<u>Begin FY 09</u>	<u>Opened</u>	<u>Closed</u>	<u>Pending end FY 09</u>	<u>Begin FY 10</u>	<u>Opened</u>	<u>Closed</u>	<u>Pending end FY 10</u>
Electric	58	32	28	62	62	32	42	53
Gas	2	0	0	2	2	1	1	2
Telecom	25	47	41	31	31	57	77	11
Private Water	24	12	9	27	27	5	22	10
Subtotal	109	91	78	122	122	96	142	76
Transportation								
Motor Carrier	142	240	238	144	144	233	302	75
Water Carrier	5	7	7	5	5	1	4	2
Sub Total	147	247	245	149	149	234	306	77
Petroleum	0	0	0	0	0	0	0	0
One Call Center	1	0	1	1	1	0	0	1
Total	257	338	324	271	271	330	448	154

<u>Utilities</u>	FY 11			
	<u>Begin FY 11</u>	<u>Opened</u>	<u>Closed</u>	<u>Pending end FY 11</u>
Electric	53	36	44	45
Gas	2	2	1	2
Telecom	11	68	58	21
Private Water	10	6	4	12
Subtotal	76	112	107	81
Transportation				
Motor Carrier	75	254	255	74
Water Carrier	2	3	1	4
Sub Total	77	257	256	78
Petroleum	0	0	0	0
One Call Center	1	0	0	1
Total	154	369	363	160

	FY 03	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11
Opened	439	391	371	344	510	370	338	330	369
Closed	394	294	575	377	571	315	324	448	363
Pending	349	446	242	209	202	257	271	154	160



B. MAJOR REGULATORY ISSUES

The Commission is responsible for regulating 220 utility companies or entities (4 electric, 1 gas, 177 telecommunications, and 38 water and sewer companies), 4 water carriers, 680 passenger carriers and 582 property carriers in the State. During the fiscal year, the Commission opened 369 new dockets relating to those regulated utilities and transportation companies, completed and disposed of 363 dockets from its total case load and issued 846 decisions and orders relating to new dockets and to those carried over from prior years.

During the Fiscal Year, key proceedings in the electric utility area included the Commission's examination of issues relating to Decoupling; Feed-in Tariffs; a competitive bidding process for firm renewable energy for Oahu and Maui; a competitive bidding process for renewable energy for Oahu; and the amendment of the Commission's framework for Integrated Resource Planning. The electric utilities requested approval of a number of power purchase agreements with independent power providers, which were approved by the Commission. In addition, the Commission reviewed the following electric utility rate increase cases: HECO's requests for general rate increases for the 2009 calendar test year and the 2011 calendar test year; HELCO's request for 2010 calendar test year rate case; MECO's 2010 calendar test year rate case; and KIUC's request for 2010 calendar test year rate case.

In the gas utility area, the Commission completed its examination of the application for general rate increase filed by The Gas Company for the 2009 calendar test year.

In the telecommunications area, the Commission approved the applicable portions of the Plan of Reorganization filed by Hawaiian Telcom Communications, Inc. with the U.S. Bankruptcy Court for the District of Hawaii.

In the water carrier transportation area, the Commission considered the application for authority to provide service by Pasha Hawaii Transport Lines as well as Young Brothers, Limited's request for 2011 calendar test year rate increase.

In the water and wastewater public utility area, applications for rate increases and for new or amended authority were reviewed by the Commission.

The following sections highlight significant Commission proceedings.

C. ELECTRICITY AND ENERGY PROCEEDINGS

The Commission regulates four electric utility companies or entities engaged in the production, purchase, transmission, distribution, and sale of electric energy in the State: HECO, serving the island of Oahu; MECO, serving the islands of Maui, Lanai, and Molokai; HELCO, serving the island of Hawaii (collectively, “the HECO Companies”); and Kauai Island Utility Cooperative (“KIUC”), serving the island of Kauai. MECO and HELCO are wholly owned subsidiaries of HECO, which is in turn a wholly owned subsidiary of Hawaiian Electric Industries, Inc.

1. COMMISSION PROCEEDINGS

a. RENEWABLE PORTFOLIO STANDARDS LAW Docket No. [2007-0008](#)

In January 2007, the Commission opened an investigation pursuant to Act 162, SLH 2006, which amended Hawaii’s Renewable Portfolio Standards (“RPS”) Law, codified as Hawaii Revised Statutes §§ 269-91 – 269-95 to examine the appropriate penalty framework for non-compliance with the RPS.

In December 2007, the Commission approved a framework for RPS to govern electric utilities’ compliance with the RPS. It also denied a proposal by the parties for the implementation of a Renewable Energy Infrastructure (“REI”) Program, including a temporary REI Surcharge, which was proposed by the HECO Companies. Instead, the Commission determined that it would open a separate docket to examine the proposed REI Program. At the same time, the Commission decided to further examine the subject of penalties on electric utilities that fail to meet the RPS and required the utilities to file supplemental briefs on the matter.

In December 2008, the Commission approved a penalty of \$20 for every megawatt-hour (“MWh”) that an electric utility is deficient under Hawaii’s RPS Law. In the Commission’s discretion, this penalty may be reduced based on the factors listed in HRS § 269-92(d) and in the RPS Framework, Section III.C.5. Any RPS penalties assessed against the HECO Companies for failure to meet the RPS shall go into the account established for the public benefits fees and shall not be recovered through rates. Any RPS penalties assessed against Kauai Island Utility Cooperative (“KIUC”) shall be paid into the Commission’s special fund and may be recovered from its members or ratepayers.

In March 2011, KIUC filed its RPS Status Report for the year ending December 31, 2010, that indicated that renewable energy resources and energy savings supplied 12.39% of KIUC’s net electricity sales during the 2010 calendar year. This result exceeded the 2010 RPS mandate of 10%.

In May 2011, the HECO Companies submitted their RPS Status Report for the 2010 calendar year. This report indicated that the HECO Companies achieved a consolidated RPS of 20.7% in 2010. This was an increase from the 19.0% achieved in 2009 and was primarily the result of additional energy efficiency (“EE”) demand-side management implemented in 2010 and increased installations of solar water heating and photovoltaic systems. Thus, the HECO Companies May 2011 Status Report showed that they exceeded the 2010 RPS compliance percentage of 10% required by the RPS Law. The HECO Companies noted, however, that achieving higher RPS percentages beyond 2010 will have its challenges since the current RPS Law, which became effective on July 1, 2009, will not allow the electrical energy savings from EE and solar water heating technologies to count towards the RPS from January 1, 2015 (the 2015 RPS target is 15%, the 2020 RPS target is 25%, and the 2030 RPS target is 40%).

b. ENERGY EFFICIENCY PORTFOLIO STANDARDS LAW
Docket No. [2010-0037](#)

In March 2010, the Commission instituted an investigation to examine establishing energy efficiency portfolio standards ("EEPS") for the State of Hawaii, pursuant to Act 155, Session Laws of Hawaii 2009 ("Act 155") and HRS § 269-96. Act 155, as codified in HRS § 269-96 requires, among other things, that the Commission establish EEPS "designed to achieve four thousand three hundred gigawatt hours of electricity use reductions statewide by 2030; provided that the commission shall establish interim goals for electricity use reduction to be achieved by 2015, 2020, and 2025 and may also adjust the 2030 standard by rule or order to maximize cost-effective energy-efficiency programs and technologies."

Pursuant to a Stipulated Procedural Schedule filed in the docket, the parties held a series of Informational Workshops in the Fall of 2010; the Commission hosted Technical Sessions in May and August 2011; the Commission's consultant submitted on August 5, 2011 a proposal for "A Framework for Energy Efficiency Portfolio Standards" for the parties review and comment; and Final Statements of Position were filed by the parties on August 29, 2011.

A Commission decision is expected by December 31, 2011.

c. COMPETITIVE BIDDING PROCESS

**i. COMPETITIVE BIDDING PROCESS FOR
RENEWABLE ENERGY ON OAHU**
Docket No. [2007-0331](#)

The Commission opened this docket in October 2007 to receive filings, review approval requests, and resolve disputes, if any, related to Hawaiian Electric Company's proposal to competitively bid approximately 100 megawatts ("MW") of non-firm renewable energy for the island of Oahu. Hawaiian Electric submitted two applications as a result of this proceeding: (1) in February 2011, approval of a purchase power agreement with Kalaeloa Solar Two, LLC for output produced by a 5 MW solar photovoltaic project; and (2) in September 2011, approval of a purchase power agreement with Kawailoa Wind, LLC for output from a 69 MW wind energy project.

**ii. COMPETITIVE BIDDING PROCESS FOR FIRM
GENERATING CAPACITY ON MAUI**
Docket No. [2011-0038](#)

The Commission opened this docket in February 2011 to receive filings, review approval requests, and resolve disputes, if any, related to Maui Electric Company's plan to proceed with a competitive bidding process to acquire up to approximately 50 MW of new, renewable, firm, dispatchable capacity generation resources on the island of Maui, with an initial increment coming on line in the 2015 time frame. Maui Electric is actively preparing the draft request for proposal, which will be filed with the Commission near the end of 2011 and reviewed by the Commission's consultant, the Independent Observer, as well as by the public.

**iii. COMPETITIVE BIDDING PROCESS FOR FIRM
GENERATING CAPACITY ON OAHU**
Docket No. [2011-0039](#)

The Commission opened this docket in February 2011 to receive filings, review approval requests, and resolve disputes, if any, related to Hawaiian Electric's plan to proceed with a competitive bidding process to acquire up to approximately 300 MW of new, renewable firm, dispatchable capacity generation resources on the island of Oahu, with the initial increments coming on line in the 2016 time frame and the remainder over the following two years. Hawaiian

Electric is actively preparing its draft request for proposal, which will be filed with the Commission near the end 2011 and subsequently reviewed by the Commission's consultant, the Independent Observer, as well as by the public.

**iv. COMPETITIVE BIDDING PROCESS FOR
RENEWABLE ENERGY ON OAHU
Docket No. [2011-0225](#)**

The Commission opened this docket in September 2011 to receive filings, review approval requests, and resolve disputes, if any, related to Hawaiian Electric's plan to competitively bid at least 200 MW of renewable energy resources delivered to the island of Oahu. By order issued on July 14, 2011, in Docket No. 2009-0327, the Commission instructed Hawaiian Electric to submit a draft request for proposal for a minimum of 200 MW of renewable energy for delivery to the island of Oahu, according to the Competitive Bidding Framework, not later than 90 days from the date of the Order to Bid 200 MW, or by October 14, 2011.

**d. NET ENERGY METERING
Docket No. [2006-0084](#)**

This investigative docket was opened in April 2006 to evaluate whether the Commission should increase: (1) the maximum capacity of eligible customer-generators to more than fifty kilowatts; and (2) the total rated generating capacity produced by eligible customer-generators to an amount above 0.5 percent of an electric utility's system peak demand, under Hawaii's Net Energy Metering Law, codified as Hawaii Revised Statutes §§ 269-101 to 269-111.

In Fiscal Year 2009-10, the parties filed several proposals, including: a proposed plan to address Net Energy Metering ("NEM"), as set forth in the Energy Agreement;⁴ a stipulation on the NEM system cap filed by the HECO Companies and the Consumer Advocate; a request to forego the development of an NEM Pilot Program for the HECO Companies; a proposed NEM Pilot Program and alternate rate structure for KIUC; and a stipulation to increase the NEM system cap for Oahu.

In January 2011, the Commission issued an order ruling on these several NEM proposals. In particular, the Commission: approved the HECO Companies' and Consumer Advocate's proposal to eliminate NEM system-wide caps and replace them with a 15% per-circuit distribution threshold for distributed generation penetration; denied the HECO Companies' request to forego the development of an NEM Pilot Program, and instead, ordered them to file a revised proposed NEM Pilot Program within thirty days of the Order; and approved KIUC's proposed NEM Pilot Program and alternate rate structure. In February 2011, the HECO Companies filed their revised proposed NEM Pilot Program, which is pending review and approval by the Commission.

⁴"Energy Agreement" refers to a comprehensive agreement dated October 20, 2008 between the Governor of the State of Hawaii, the State Department of Business Economic Development and Tourism, the Consumer Advocate, and the HECO Companies that is designed to move the State away from its dependence on imported fossil fuels for electricity and ground transportation, and toward "indigenously produced renewable energy and an ethic of energy efficiency."

**e. STANDARDS AND GUIDELINES FOR UTILITY FUNDING
OF RENEWABLE INFRASTRUCTURE PROJECTS
ASSOCIATED WITH INDEPENDENT POWER
PRODUCERS**

Docket No. [2010-0139](#)

On July 30, 2010, HECO, HELCO, and MECO (collectively, "HECO Companies") filed an application for approval of its standards on their ability to offer to use the Renewable Energy Infrastructure Program ("REIP") surcharge and the terms of such offer in its negotiations with developers, as required by the Decision and Order, filed on May 12, 2010, in Docket No. 2009-0176. Specifically, the Companies are proposing guidelines and standards with respect to when they will offer to pay for interconnection and other costs traditionally paid for by the independent power producer for the purpose of encouraging renewable energy project development.

On July 29, 2011, the Consumer Advocate filed its statement of position, recommending certain revisions to the standards and guidelines proposed by the Companies. A Decision and Order is currently pending.

**f. THIRD PARTY ADMINISTRATION OF ENERGY
EFFICIENCY PROGRAMS**

Docket No. [2007-0323](#)

HRS Chapter 269, Part VII, pertaining to Hawaii's Public Benefits Fee ("PBF"), authorizes the Commission to contract with a third party administrator ("TPA") to implement and manage energy efficiency programs in the State of Hawaii. On March 3, 2009, following a competitively bid selection process, the Commission selected Science Applications International Corporation ("SAIC") to serve as the TPA of energy efficiency programs within the HECO Companies' service territories. SAIC began administering the Hawaii Energy Efficiency Program ("Hawaii Energy") on July 1, 2009 and later transferred its program responsibilities to its subsidiary, R.W. Beck.

As part of the PBF implementation process, the Commission also selected Bank of Hawaii as the Fiscal Agent; James Flanagan Associates ("JFA") as the Contract Manager; Accuity LLP ("Accuity") as the independent auditor; and Economic Consultants Oregon Ltd., dba ECONorthwest ("ECONorthwest") as the independent evaluator of Hawaii Energy's programs. In 2011, ECONorthwest's contract was transferred to Evergreen Economics ("Evergreen").

In 2009, the Commission set the initial PBF surcharge amount for 2009 and 2010 at 1.0% of the projected total electric revenue of the HECO Companies, plus revenue taxes. During this transition year, 60% of the amount collected was allocated to the HECO Companies' existing demand-side management programs and 40% was allocated to the PBF.

In 2011, the Commission increased the PBF surcharge to 1.5% of the HECO Companies' projected total electric revenue, plus revenue taxes. The Commission also awarded SAIC its performance award of \$645,598 for PY 2009 and established the PBF two-year budget for Program Years 2011 and 2012 at \$71,103,608.

g. FEED-IN TARIFFS

Docket No. [2008-0273](#)

In October 2008, the Commission instituted an investigation to examine the issues and requirements raised by the implementation of feed-in tariffs ("FITs") in the HECO Companies'

service territories. FITs, or locked-in rates for renewable power fed into the electric grid, require the utility to pay a fixed rate for renewable energy as approved by the Commission.

In September 2009, the Commission issued its decision and order on the general principles for the implementation of FITs in the HECO Companies' service territories.

The Commission selected an Independent Observer ("IO") to oversee queuing and interconnection procedures related to FITs. The parties also filed proposed reliability standards, queuing and interconnection procedures, proposed FIT tariffs, and extensive comments and information requests relating thereto.

In response to a proposal filed by the HECO Companies, in August 2010, the Commission approved the creation of a Reliability Standards Working Group ("RSWG"), Technical Support Group, and Technical Review Committee to examine issues relating to grid reliability and integration of intermittent renewable resources on the HECO Companies' systems ("RSWG Process"). Also in August 2010, the HECO Companies filed revised proposed tariffs and contracts for Commission review.

On October 13, 2010, the Commission approved: (1) proposed FITs for Tier 1 and Tier 2 renewable energy generators, which includes applicable pricing, other terms and conditions, and a standard form of contract for the FIT program; and (2) proposed queuing and interconnection procedures for Tier 1 and Tier 2 of the FIT program.

In January 2011, the Commission selected an Independent Facilitator ("IF") for the RSWG.

By Order issued in June 2011, the Commission set additional procedural steps for resolution of Tier 3, to address the IO's recommendation to complete a review of the FIT experience to date, identify lessons learned, and apply those lessons to the design of Tier 3 with input from interested parties, to be followed by one request for tariff amendments before Tier 3 is released, but before the conclusion of the initial FIT two-year test period. The parties are scheduled to file a combined Statement of Position on Tier 3 by September 6, 2011.

Also in June 2011, the Commission issued an Order that allowed the IF to hold the first meeting of the RSWG, and provided guidance on the RSWG Process.

A Commission decision is expected by November 30, 2011.

h. DECOUPLING MECHANISM **Docket No. [2008-0274](#)**

By its Order Initiating Investigation, filed on October 24, 2008, the Commission opened Docket No. 2008-0274 to examine implementing a decoupling mechanism for the HECO Companies that would modify the traditional model of ratemaking for the HECO Companies by separating the HECO Companies' revenues and profits from electricity sales.

On February 19, 2010, the Commission approved a decoupling mechanism subject to the issuance of a Final Decision and Order in Docket No. 2008-0274.

The Commission, in a 2-1 decision, issued its Final Decision and Order on August 31, 2010. The decoupling mechanism approved by the Commission in the Final Decision and Order included: (1) a sales decoupling component, or Revenue Balancing Account ("RBA"), which is intended to break the link between the HECO Companies' sales and their total electric revenue; and (2) a Revenue Adjustment Mechanism ("RAM"), which is intended to compensate the

HECO Companies for increases in utility costs and infrastructure investment between rate cases. As explained in the Final Decision and Order, decoupling de-links or “decouples” the HECO Companies’ revenues from the amount of electricity or kWh they sell, and is intended to remove the disincentive for the HECO Companies to aggressively pursue Hawaii’s clean energy objectives.

In Transmittal No. 11-02, filed on March 31, 2011, Hawaiian Electric submitted its adjustments to its decoupling tariff (in accordance with the tariff provisions) and requested that the Commission allow Hawaiian Electric’s initial RBA Rate Adjustment to become effective on June 1, 2011. No protests were filed in response to Hawaiian Electric’s tariff filing. After allowing review and comment by the Consumer Advocate, on May 31, 2011, the Commission approved Hawaiian Electric’s decoupling tariff filing, as revised, and therefore allowed Hawaiian Electric’s proposed RBA Rate Adjustment of \$0.001995 per kWh, to go into effect on June 1, 2011.

**i. ISLAND-WIDE POWER OUTAGE OF 12/26/08
Docket No. [2009-0005](#)**

On December 26, 2008, at about 6:35 p.m., large portions of the island of Oahu experienced power losses and, beginning on or about 8:30 p.m., an island-wide power outage occurred on Oahu (“Power Outage”). Hawaiian Electric informed the commission that the Power Outage was likely the result of a severe and unusual lightning storm that created instability in its system.

By a Decision and Order issued in February 2011, the Commission determined that Hawaiian Electric’s activities and performance prior to and during the island-wide power outage that occurred were reasonable, and concluded that no penalties were warranted. Specifically, the Commission found that the triggering event for the 2008 Power Outage was a lightning strike or strikes and resulting 3-phase fault at structure 29 on the Kahe-Waiau transmission line, which caused a series of cascading events that led to the Power Outage. Due to the relative infrequency of lightning induced 3-phase faults on Oahu, as well as the large magnitude of the particular strike events which triggered the Power Outage, the Commission found that Hawaiian Electric could not have reasonably prevented the damaging effects of the lightning strikes to prevent the Power Outage.

In addition, the Commission’s review of the record revealed that Hawaiian Electric implemented a prudent and efficient restoration plan, which minimized delays and potential mishaps. Therefore, the Commission found that Hawaiian Electric could not have reasonably shortened the duration of the Power Outage and restored power more quickly to customers. As a result of the foregoing, the Commission found that the imposition of penalties on Hawaiian Electric for the 2008 Power Outage is unwarranted. Given, however, that there have been two island-wide outages in the span of two years, the Commission directed Hawaiian Electric to comply with certain conditions and recommendations set forth within the final Decision and Order, including additional studies and reporting requirements.

**j. HECO’S COMMERCIAL AND RESIDENTIAL DIRECT LOAD
CONTROL PROGRAMS
Docket Nos. [2009-0073](#) and [2009-0097](#)**

Hawaiian Electric’s Residential and Commercial Industrial Direct Load Control Programs, commonly referred to as the “EnergyScout™” programs, offer incentives to residential, commercial, and industrial customers who agree to curtail their electricity use for a brief period under specific circumstances. By reducing electricity demand through reductions by participating customers, load control programs help Hawaiian Electric to meet system reserve capacity, increase electrical-grid stability and avert power outages during periods of emergency generation shortfalls.

On December 29, 2009, the Commission approved Hawaiian Electric's application for a three year extension of its EnergyScout™ programs from January 1, 2010 through December 31, 2012. The Commission, however, denied Hawaiian Electric's request to expand the programs until Hawaiian Electric completed an evaluation showing that its load control programs were being implemented efficiently and effectively. During the fiscal year, Hawaiian Electric completed an impact and process evaluation of its program and filed the evaluation reports in Docket No. 2007-0341. The evaluation results will be considered by the Commission in connection with future modifications of Hawaiian Electric's load control programs.

k. ON-BILL FINANCING INVESTIGATION
Docket No. [2011-0186](#)

On July 8, 2011, the Governor of the State of Hawaii signed into law House Bill 1520, HD2, SD2, CDI as Act 204 Session Laws of Hawaii 2011 ("Act 204"). Act 204 directs the Commission to investigate an on-bill financing program for residential electric utility customers. Act 204 also authorizes the commission to implement the program by decision and order or by rules if the on-bill financing program is found to be viable. The intent of on-bill financing is to allow electric utility company customers who are renters or who lack the resources to invest in renewable energy or energy efficiency to purchase or otherwise acquire such systems by providing for billing and payment of such a system or device through an assessment on the electric utility company customer's monthly bill.

The Commission instituted this proceeding in August 2011 to investigate the issues related to on-bill financing in the Hawaiian Electric Companies' and Kauai Island Utility Cooperative's service territories. The parties to the docket will assist the Commission in evaluating a study analyzing the following scope for the investigation:

- (1) The costs and benefits associated with the establishment and administration of the program;
- (2) The ability of the program to effectively provide lifecycle cost savings to participating electric utility company customers;
- (3) The ability of the program to make renewable energy and energy efficiency more accessible to the rental market and other underserved markets;
- (4) Methods to structure the program to ensure that any public benefits fee funds are spent cost-effectively and in compliance with applicable statutes;
- (5) The use of non-ratepayer funds or private capital to provide financing for renewable energy systems or energy efficient devices acquired through the program;
- (6) Reasonable penalties, which may include fines and disconnection of utility services, for nonpayment of on-bill financing costs;
- (7) The ability of an electric utility company to recover costs incurred due to the program; and
- (8) Other issues the public utilities commission deems appropriate.

**I. AMENDMENTS TO THE INTEGRATED RESOURCE
PLANNING FRAMEWORK**
Docket No. [2009-0108](#)

In May 2009, the Commission instituted an investigation to examine amendments to the Framework for Integrated Resource Planning that were proposed by the HECO Companies, KIUC, and the Consumer Advocate in a letter filed on April 28, 2009. In that letter, the HECO Companies, KIUC, and the Consumer Advocate proposed that the Commission open a docket to replace the IRP Framework with a Clean Energy Scenario Planning ("CESP") process, and submitted a Proposed CESP Framework for the Commission's review.

The Commission held a panel hearing in February 2010. In March 2010, the Commission issued a letter to the parties, listing its inclinations as to what should be contained in the final framework. In August 2010, the Parties filed their proposed frameworks and Opening Briefs. Reply Briefs were due in September 2010.

In March 2011, the Commission issued a Decision and Order revising the framework by modifying, updating and expanding the Framework for Integrated Resource Planning to allow for a more effective, inclusive and comprehensive planning process that acknowledges the dynamic and constantly changing utility environment that exists today.

2. HECO, HELCO, MECO, AND KIUC PROCEEDINGS

a. HECO 2009 TEST YEAR RATE INCREASE REQUEST Docket No. [2008-0083](#)

In July 2008, Hawaiian Electric filed an application requesting a general rate increase of 5.2 per cent over revenues at current effective rates. In July 2009, the Commission issued an interim decision and order granting a revenue increase of \$61,098,000, or a 4.71 per cent increase over revenues at current effective rates for a normalized 2009 test year.

Evidentiary hearings were held in October 2009, with post-hearing briefs filed in January 2010.

In February 2010, the Commission issued a second Interim Decision and Order, approving the request by Hawaiian Electric to increase its rates an additional \$12,671,000, resulting in an adjusted 2009 test year interim increase of \$73,769,000 over revenues at current effective rates.

The Commission issued a final decision in this docket in December 2010, which among other things: allowed Hawaiian Electric to implement the decoupling mechanism that was approved by the commission in the decoupling docket (2008-0274); ruled that the appropriate return on common equity for the 2009 test year is 10.00%, which reflects the Commission's approval of the decoupling, and other cost-recovery mechanisms for Hawaiian Electric that will cumulatively lower Hawaiian Electric's business risk; disallowed test year salary increases and related expenses for Hawaiian Electric's merit employees; and terminated Schedule E (discount for Hawaiian Electric's employees) as unduly discriminatory and in conflict with state energy efficiency goals.

In May 2011, the Commission approved the Consumer Advocate's recommendations to conduct focused regulatory audits of the cost reasonableness of certain Hawaiian Electric projects, as well as a more general audit for the purpose of determining any other specific projects or areas in Hawaiian Electric's operations or management that should be subjects of an expanded audit. The Commission is currently reviewing the parties' proposals discussing the scope and time schedules for these audits.

b. MECO 2010 TEST YEAR RATE INCREASE REQUEST Docket No. [2009-0163](#)

In September 2009, MECO filed its application, seeking an increase in revenues of \$28,190,300 (approximately 9.7%), based on the January 1, 2011 to December 31, 2011 test year, and a rate of return of 8.57%. MECO also proposed to establish: (1) a purchased power adjustment clause/surcharge to recover non-energy purchased power agreement costs by effectively transferring the recovery of purchased power costs from base rates to the new surcharge that will be adjusted monthly and reconciled on a quarterly basis; and (2) a revenue balancing account for a revenue decoupling mechanism that will remove the linkage between

electric revenues and sales, if such a revenue balancing account is not otherwise approved by the Commission in its separated revenue decoupling investigative proceeding (Docket No. 2008-0274).

In July 2010, the Commission approved an interim increase in revenues of \$10,296,200, or approximately 3.3% over revenues at current effective rates, based on total revenue requirement of \$323,885,100 (consolidated operations basis). Thereafter, in January 2011, the Commission approved an adjustment to the interim increase in revenues, which resulted in a decrease in the amount of the interim increase in revenues previously approved by the Commission, from \$10,296,200 to \$8,513,000, i.e., by \$1,783,200. The Commission's final decision and order is pending, and will include the implementation of decoupling for MECO.

**c. HELCO 2010 TEST YEAR RATE INCREASE REQUEST
Docket No. [2009-0164](#)**

On December 9, 2009 HELCO filed an application requesting a general rate increase of \$20,934,500 (approximately 6.0%) over its revenues at current effective rates. In addition, HELCO proposes to establish: (1) a purchased power adjustment clause/surcharge to recover non-energy purchased power agreement costs by effectively transferring the recovery of purchased power costs from base rates to the new surcharge that will be adjusted monthly and reconciled on a quarterly basis; and (2) a revenue balancing account for a revenue decoupling mechanism that will remove the linkage between electric revenues and sales, if such a revenue balancing account is not otherwise approved by the Commission in its separate revenue decoupling investigative proceeding, Docket No. 2008-0274.

On November 3, 2010, the Commission issued its Interim Decision and Order, which approved an interim increase of \$5,956,000 over revenues at present rates rather than the \$20,934,500 that was requested in the application. The Commission found that, for interim purposes, the wages, salaries, and all related accounts for all HELCO employees should be adjusted downward to reflect the 2008 recorded amounts. The Commission also found that, for interim purposes, HELCO's recovery of group medical, dental, vision, and life insurance premiums should be adjusted to no more than 50% of the total premium cost. Because of the existing labor contract between HELCO and the Local 1260 of the International Brotherhood of Electrical Workers AFL-CIO that is in effect through December 31, 2011, the Commission determined that this adjustment would be made in two phases: (1) as to all merit and executive employees of HELCO, the adjustment would take effect when the approved interim rates take effect; and (2) as to the non-merit employees of HELCO, the adjustment would take effect as of January 1, 2012, unless the Commission rules otherwise in a Final Decision and Order filed before that date.

On December 15, 2010, HELCO filed its Supplemental Testimonies. In its Supplemental Testimonies, HELCO proposed, among other things, for purposes of the Final Decision and Order, to reduce its stipulated 2010 revenue requirement by an "austerity adjustment" in the amount of \$400,000 in lieu of continuing the wage/salary and benefits adjustments mandated in the Interim Decision and Order. A Final Decision and Order is currently pending.

**d. KIUC 2010 TEST YEAR RATE INCREASE REQUEST
Docket No. [2009-0050](#)**

On June 30, 2009, Kauai Island Utility Cooperative ("KIUC") requested an increase in revenues of \$12,991,518 (approximately 10.45 percent) over its present total revenue requirement of \$124,276,813, which was based on an estimated total revenue requirement of \$137,268,331 for the January 1, 2010 to December 31, 2010 test year, and a targeted Regulatory Times Interest Earned Ratio ("TIER") of 2.50, which is equivalent to a Rural Utilities Service TIER of 2.27, and a 10.04 percent rate of return.

By Interim Decision and Order issued on April 29, 2010, the Commission approved in part and denied in part the requested increase in rates for KIUC on an interim basis, as reflected in the Parties' Joint Statement of Probable Entitlement in Support of Interim Rates, filed on April 8, 2010. Specifically, the Commission allowed an interim net revenue increase from present rates of \$3,063,023 (approximately 1.984 percent), a TIER of 2.27, and a Test Year revenue requirement of \$157,420,296.

By Decision and Order issued on September 9, 2010, the Commission affirmed its Interim Decision and Order by granting a net increase in revenues over present rates of \$3,063,023 (approximately 1.984 percent), for KIUC, based on a Regulatory TIER of 2.27 and a total revenue requirement of \$157,420,296 for the Test Year. In so doing, the Commission approved the Stipulation of Settlement Agreement in Support of Final Rates jointly filed by the parties to the docket on April 28, 2010, as adjusted by the Commission in its Decision and Order. In particular, the Commission disallowed cost recovery related to the increases in non-bargaining unit employee salaries and related expenses for KIUC.

e. MECO – APPROVAL OF REVISED DEPRECIATION AND AMORTIZATION RATES

Docket No. [2009-0286](#)

In May 2011, the Commission approved revised depreciation and amortization rates, a revised contributions-in-aid-of-construction amortization period, and other related matters for MECO, including the electric utility's use of vintage amortization accounting for certain plant accounts.

f. HECO – APPROVAL OF REVISED DEPRECIATION AND AMORTIZATION RATES

Docket No. [2010-0053](#)

In May 2011, the Commission approved revised depreciation and amortization rates, a revised contributions-in-aid-of-construction amortization period, and other related matters for Hawaiian Electric, including the electric utility's expanded use of vintage amortization accounting for additional plant accounts.

g. ADVANCED METERING INFRASTRUCTURE PROJECT

Docket No. [2008-0303](#)

In their application filed on December 1, 2008, the Hawaiian Electric Companies requested Commission approval of, among other things: (1) to commit capital funds estimated at \$41,229,000 for Hawaiian Electric, \$10,606,000 for Maui Electric, and \$13,190,000 for Hawaii Electric Light Company for the Advanced Metering Infrastructure ("AMI") project; and (2) for approval of the Advanced Metering Infrastructure Equipment and Services Agreement between the Hawaiian Electric and Sensus Metering Systems, Inc.

On May 4, 2010, the HECO Companies filed a proposal, which consisted of a request to: (1) conduct Extended Pilot Testing for the AMI Project; (2) suspend the remaining procedural steps scheduled in the docket pending the completion of the proposed Extended Pilot Testing; (3) defer certain costs related to the Extended Pilot Testing; and (4) provide an update on developments in the Smart Grid, CIS and cyber-security areas

By Order Closing Docket, filed on July 26, 2010, the Commission denied the Hawaiian Electric Companies' request filed on May 4, 2010 to conduct Extended Pilot Testing for the AMI Project, dismissed the application filed on December 1, 2008 without prejudice, given that the Companies could not complete its application without the Extended Pilot Testing, and closed the docket. By such order, the Commission expressed concern that the Extended Pilot Testing,

which would not be completed until 2011, raised additional concerns about the cost effectiveness of the Project. In addition the Commission noted that some of the Parties raised concerns about the Project as a whole.

**h. PV HOST PILOT PROGRAM
Docket No. [2009-0098](#)**

The HECO Companies filed an application on April 30, 2009, for approval of a two-year Photovoltaic ("PV") Host Pilot Program, under which each company would target the installation of 8 MW, 4 MW and 4 MW of PV at Hawaiian Electric Company, Inc. ("HECO"), Hawaii Electric Light Company, Inc. ("HELCO"), and Maui Electric Company, Limited ("MECO"), respectively.

In September 2009, the Commission approved the stipulated procedural order for this docket. The parties conducted several rounds of discovery related to the proposed program. Thereafter, the HECO Companies requested certain modifications to, and extensions of the deadlines in, the stipulated procedural order so that they could amend the PV Host Pilot Program design described in the HECO Companies' April 30, 2009 application to address comments received during the technical and settlement discussion processes in the proceeding, which were granted by the Commission.

The Commission approved the HECO Companies' extension requests. The HECO Companies filed an amended application on August 31, 2010, deferring HELCO and MECO's participation in the proposed program and proposing certain refinements. Upon a round of discovery, statements of position and a reply statement of position were filed by the parties to this proceeding. A decision on this matter is pending.

**i. LIFELINE RATE PROGRAM
Docket No. [2009-0096](#)**

In April 2009, the HECO Companies filed an application with the Commission to establish a Lifeline Rate Program that would provide a monthly bill credit, ranging from \$25 to \$35 per month, to qualified, low-income customers.

The Consumer Advocate conducted discovery and filed its Statement of Position in December 2009. In February 2010, the Commission issued information requests to the HECO Companies, to which they responded in March 2010.

**j. HECO/HELCO/MECO – REQUEST TO APPROVE A
BIODIESEL SUPPLY CONTRACT BETWEEN HELCO
AND AINA KOA PONO-KA'U LLC, A BIOFUEL
SURCHARGE PROVISION, AND OTHER RELATED
MATTERS**

Docket No. [2011-0005](#)

In September 2011, the Commission denied the HECO Companies' request to approve HELCO's Biodiesel Supply Contract with Aina Koa Pono-Ka'u LLC, dated January 6, 2011, for approximately sixteen million net United States gallons annually of locally-produced biodiesel over twenty years. The Commission concluded that the contract price for the biofuel was excessive, not cost-effective, and thus, was unreasonable and inconsistent with the public interest. The Commission also expressed certain observations with respect to the HECO Companies' proposal to establish and implement a Biofuel Surcharge Provision that was intended to pass through the differential between the cost of the biofuel and the cost of the petroleum fuel that the biofuel was replacing, in the event that the cost of the biofuel was higher than the cost of the petroleum fuel, over the customers of HECO and HELCO. This docket has been closed.

k. FUEL SUPPLY CONTRACTS

During the Fiscal Year, the Commission reviewed the following requests to amend the HECO Companies' existing fuel supply contracts:

- **HECO - Chevron Products Company's Low Sulfur Fuel Oil Supply Contract - Docket No. [2009-0346](#)**

On May 13, 2011, the commission issued a decision and order approving the Second Amendment to Hawaiian Electric's Low Sulfur Fuel Oil ("LSFO") Supply Contract with Chevron Products Company. The Second Amendment renegotiated the pricing formula for LSFO delivered by Chevron to Hawaiian Electric, and shortened the term of the supply contract.

- **HECO - Tesoro Hawaii Corporation's Low Sulfur Fuel Oil Supply Contract - Docket No. [2010-0113](#)**

On May 13, 2011, the commission issued a decision and order approving: (1) the Second Amendment to Hawaiian Electric's LSFO Supply Contract with Tesoro Hawaii Corporation, which renegotiated the pricing formula for LSFO delivered by Tesoro to Hawaiian Electric, shortened the contract term, and modified the volume terms under the fuel supply contract; and (2) a Pipeline Throughput Contract between Hawaiian Electric and Tesoro, which allows Hawaiian Electric to use Tesoro's pipeline facilities for the transport of fuel.

In approving the contracts, the commission also allowed Hawaiian Electric to recover, on a going-forward basis, the costs associated with the Second Amendment and Pipeline Fuel Contract through Hawaiian Electric's Energy Cost Adjustment Clause, to the extent that such costs are not recovered through base rates. The commission, however, denied Hawaiian Electric's request to apply the amended pricing formula retroactively to January 1, 2010.

- **MECO – Lanai Oil Company, Inc.'s Fuel Supply Contract - Docket No. [2010-0105](#)**

On October 6, 2010, the commission approved the Third Amendment to Supply Contract for No. 2 Diesel Fuel between MECO and Lanai Oil Company, Inc. The amended fuel supply contract allows MECO to purchase ultra low sulfur diesel for use in its power generating facilities on the island of Lanai. The amendment was prompted by changes in federal air emission standards that require existing facilities to use ultra low sulfur diesel instead of No. 2 diesel fuel.

I. CONSTRUCTION OF OVERHEAD AND UNDERGROUND ELECTRIC LINES

During the Fiscal Year, the Commission reviewed and approved the following requests for the construction of electric lines:

- **Waimea-Keamuku 7200 Line Reconductoring Project – Docket No. [2008-0060](#)**

HELCO's request to commit approximately \$3.232 million and construct an overhead 69 kV transmission line in connection with the Waimea-Keamuku 7200 line reconductoring project.

- **Naval Computer and Telecommunications Area Master Station Whitmore 46 kV Line – Docket No. [2009-0351](#)**

Hawaiian Electric's request to construct a 2.3 mile, 46 kV overhead subtransmission line from the intersection of Kamehameha Highway and Whitmore Avenue to Hawaiian Electric's Whitmore Substation.

m. WAIVER OF RULE 13 TO ALLOW HECO TO PAY FOR PORTION OF THE UNDERGROUND CONVERSION COST

HECO's Rule 13.D.4 states: When mutually agreed upon by the customer or applicant and the Company, overhead facilities will be replaced with underground facilities, provided the customer or applicant requesting the change makes a contribution of the estimated cost installed of the underground facilities less the estimated net salvage of the overhead facilities removed.

During the last Fiscal Year, the Commission reviewed and approved the following request for waiver of Rule 13, to allow HECO to pay for a portion of underground conversion costs:

▪ **KALANIANA'OLE HIGHWAY IMPROVEMENTS CONVERSION PROJECT - Docket No. [2007-0217](#)**

Hawaiian Electric's request to allow Hawaiian Electric to contribute approximately \$275,344 to convert existing 12kV overhead lines to 12kV underground lines for Kalaniana'ole Highway improvements, retaining wall at Makapuu project.

▪ **REVISED RULE 13—LINE EXTENSIONS - Docket No. [2009-0356](#)**

In August 2010, the Commission approved Hawaiian Electric's request to incorporate into its Tariff Rule 13 its existing Policy on Underground Lines; Cost Contribution for Placing Overhead Distribution Lines Underground/Guideline Summary, and Dedicated and System Substation Guideline. As a result of the Commission's action, Hawaiian Electric, on a going forward basis, will no longer be required to seek a waiver of its Rule 13.D.4 whenever it proposes to pay for a portion of overhead-to-underground conversion costs requested by an entity. In September 2010, the Commission closed this docket.

**n. HAWAIIAN ELECTRIC LIGHT COMPANY'S PURCHASE POWER AGREEMENT WITH PUNA GEOTHERMAL VENTURE
Docket No. [2011-0040](#)**

On February 25, 2011, Hawaii Electric Light Company ("HELCO") filed an application to approve purchase power agreements ("PPA") with Puna Geothermal Venture ("PGV"). Currently, PGV operates an existing geothermal electric generating facility in the vicinity of Pu'u Honua'ula, Kapoho, Hawaii, County of Hawaii that provides HELCO with up to 30 MW of energy and firm capacity under an amended purchase power contract.

HELCO and PGV have been in extensive negotiations over the past several years relating to an expansion of the existing facility. Conceptually, the parties agreed that, subject to Commission approval, PGV will make such improvements and modifications to expand its existing facility to enable the resulting facility to provide 38 MW of energy and firm capacity and to meet certain operational, performance and dispatch requirements not currently required under the Existing PPA. As part of the expansion project, PGV is installing 11 MW of capacity but only requiring HELCO to commit to purchase an additional 8 MW of firm capacity. The additional 3 MW is going to be available to supplement the existing facility's 25 to 30 MW on-peak obligation or the additional 8 MW capacity obligation under the 8 MW expansion PPA. In return for allowing PGV to supplement the existing facility, PGV has agreed to delink the energy price paid for certain amounts of energy under the Existing PPA from oil.

The Consumer Advocate and Tawhiri Power, an intervenor in the docket, filed their respective statements of position on August 3, 2011, to which HELCO filed a statement in response on August 16, 2011. The Commission will pose questions of the parties, if any, and render a decision shortly.

**o. MAUI ELECTRIC COMPANY'S PURCHASE POWER AGREEMENT WITH KAHEAWA WIND POWER II
Docket No. [2010-0279](#)**

On February 11, 2011, the Commission approved the purchase power agreement filed by Maui Electric for as-available energy between Maui Electric and Kaheawa Power II. The proposed project consists of an approximately 21 MW wind facility, located on a portion of the Government (Crown) Land of Ukumehame, Lahaina, and Wailuku, on the island of Maui. According to Maui Electric, the proposed wind facility will consist of 14 General Electric 1.5 MW wind turbine generators. The proposed wind facility will also include a 10 MW/20MWh battery energy storage system.

The initial term of the PPA is twenty years, commencing upon the commercial operations date, and will remain in effect thereafter until terminated by either party.

**p. HECO POWER PURCHASE AGREEMENT –
IC SUNSHINE, LLC
Docket No. [2011-0145](#)**

On January 19, 2011, Hawaiian Electric filed an application requesting that the Commission: (1) approve a power purchase agreement ("PPA") between Hawaiian Electric and IC Sunshine LLC ("IC Sunshine"); (2) authorize Hawaiian Electric to include the purchased energy charges that it incurs under the PPA in Hawaiian Electric's Energy Cost Adjustment Clause ("ECAC"); (3) find that the purchased energy charges to be paid by Hawaiian Electric pursuant to the PPA are reasonable; and (4) find that Hawaiian Electric's purchased power arrangements under the PPA, pursuant to which Hawaiian Electric purchases energy on an as-available basis from IC Sunshine, are prudent and in the public interest; and (5) determine that the 46 kV line extension included as part of Hawaiian Electric's interconnection facilities may be constructed above the surface of the ground. Pursuant to the PPA, IC Sunshine would install, operate, and maintain an approximately five MW photovoltaic energy facility on a twenty-acre parcel of property in Campbell Estate Industrial Park, Ewa District, on the island of Oahu.

On June 9, 2011, the Consumer Advocate filed its statement of position, stating that it generally does not object to Hawaiian Electric's application. The Consumer Advocate's only concern with the PPA is that Hawaiian Electric has deemed the proposed PPA's energy charge comparable to the proposed Feed-in Tariff ("FIT") rate in Docket No. 2008-0273, based on IC Sunshine's representation that it will be utilizing a 24.5% refundable State tax credit instead of the 35% tax credit. The Consumer Advocate contends that, as payment of the higher FIT tariff rate is dependent on the FIT developer providing evidence that it has taken the lower tax rate of 24.5%, IC Sunshine should also make a similar showing before utilizing an energy charge that is comparable to the higher FIT tariff rate. On June 30, 2011, Hawaiian Electric filed its reply statement of position, stating that it has initiated discussions with IC Sunshine to address the Consumer Advocate's concern. According to Hawaiian Electric, if IC Sunshine elects to file for the 35% tax credit instead of the 24.5% tax credit, a lower payment for the energy will be applied and will be reflected in an amendment to the PPA. The language in the proposed amendment is currently being negotiated by Hawaiian Electric and IC Sunshine. The Commission is waiting for the proposed amendment to be filed before issuing its Decision and Order.

q. MAUI ELECTRIC COMPANY'S POWER PURCHASE AGREEMENT WITH AUWAHI WIND ENERGY LLC
Docket No. [2011-0060](#)

On June 15, 2011, the Commission approved the power purchase agreement for as-available energy between Maui Electric and Auwahi Wind Energy LLC for approximately 21 MW of wind from Auwahi Wind's proposed wind facility on the island of Maui. The initial term is twenty years, commencing upon the commencing upon the commercial operations date, and will remain in effect thereafter until terminated by either party.

r. KIUC – POWER PURCHASE CONTRACT FOR AS-AVAILABLE ENERGY WITH PIONEER HI-BRED INTERNATIONAL INC.
Docket No. [2010-0122](#)

In November 2010, the Commission approved the power purchase contract for as-available energy between KIUC and Pioneer Hi-Bred International Inc. ("Pioneer"), and other related matters. As a result, KIUC will purchase as-available energy generated from Pioneer's 250 kW photovoltaic facility located at the Waimea Research Center.

s. KIUC – POWER PURCHASE CONTRACT FOR AS AVAILABLE ENERGY WITH GREEN ENERGY TEAM LLC
Docket No. [2011-0032](#)

On February 15, 2011, KIUC filed an application for approval of a 20-year power purchase contract with Green Energy Team. Green Energy Team plans to build, own, and operate a proposed biomass-fueled electric generating facility that will provide KIUC with an expected annual net electrical output of 6.7 MW on a 24-hours-a-day basis, with a normal dispatch range of 4.2 MW to 7.5 MW. The proposed Facility is expected to be a biomass-fired boiler with a steam turbine and generator rated at 11 MVA. The steam which powers the Facility's generator will be provided by a water tube boiler with moving grate. Water will be fed to the Facility's generator from an on-site well or a spring to an on-site water treatment system and the primary fuel for the Facility will be wood chips supplied from an existing tree farm, woody biomass obtained from clearing invasive and non-invasive tree species, and/or material supplied from a short rotation tree farm.

On August 16, 2011, the Consumer Advocate filed its Statement of Position indicating that it does not object to the approval of the power purchase agreement and other requests by KIUC requested in the application.

On October 11, 2011, KIUC and the Consumer Advocate filed a letter with the Commission supplementing the record as it pertains to the capacity charge. Specifically, pursuant to Hawaii Revised Statutes § 269-27.2(d), in order to allow for the recovery of the capacity charge in between general rate case proceedings, the Commission must find the capacity charge payments to be: (1) just and reasonable; (2) not unduly prejudicial to the customers of the utility; (3) promotional of Hawaii's long-term objective of energy self-sufficiency; (4) encouraging to the maintenance or development of non-fossil fueled sources of electrical energy; and (5) in the overall best interest of the general public. The Commission will consider the supplemented record and render a decision and order shortly.

t. KIUC'S POWER PURCHASE AGREEMENT WITH KAPAA SOLAR LLC
Docket No. [2010-0179](#)

On March 3, 2011, the Commission approved the power purchase agreement between KIUC and Kapaa Solar LLC to provide approximately 1 MW from Kapaa Solar's photovoltaic

generation plant. The initial term is twenty years, commencing upon the in-service date (the date upon which KIUC receives notification that Kapaa Solar meets all requirements under the interconnection agreement), and will remain in effect until terminated by either party.

**u. KIUC'S POWER PURCHASE AGREEMENT WITH POIPU
SOLAR
Docket No. [2010-0307](#)**

On July 7, 2011, the Commission approved the power purchase agreement for as-available energy between KIUC and Poipu Solar to provide approximately 3 MW from Poipu Solar's photovoltaic generation plant. The initial term is twenty years, commencing upon the in-service date (the date upon which KIUC receives notification that Poipu Solar meets all requirements under the interconnection agreement, but no earlier than June 30, 2011), and will remain in effect thereafter for 5 automatic 1-year extensions until terminated by either party.

**v. HECO/HELCO/MECO – ELECTRIC VEHICLE PILOT
RATES
Transmittal No. 10-05**

In September 2010, the Commission, in a 2-1 decision, approved the establishment of electric vehicle pilot rates (residential and commercial customers) for HECO, HELCO, and MECO for a three-year pilot period, from October 1, 2010 to September 30, 2013. The underlying purposes of the electric vehicle pilot rates are to: (1) encourage the charging of electric vehicles during off-peak periods, when the demand for energy from consumers is lower; (2) obtain load profile data from a random sampling of electric vehicle participants; and (3) utilize load control relays at selected Oahu locations to test the overall operational reliability of HECO's system when electric vehicle chargers are in-service.

**w. COMMISSION APPROVAL OF CAPITAL
IMPROVEMENTS**

Prior to July 1, 2004, electric and telecommunications utilities were required by the Commission's administrative rules to obtain approval for all capital improvement project ("CIP") expenditures over \$500,000. Effective July 1, 2004, the threshold increased from \$500,000 to \$2.5 million for the electric and telecommunications utilities, resulting in a reduction in the number of CIP applications requesting commission approval.

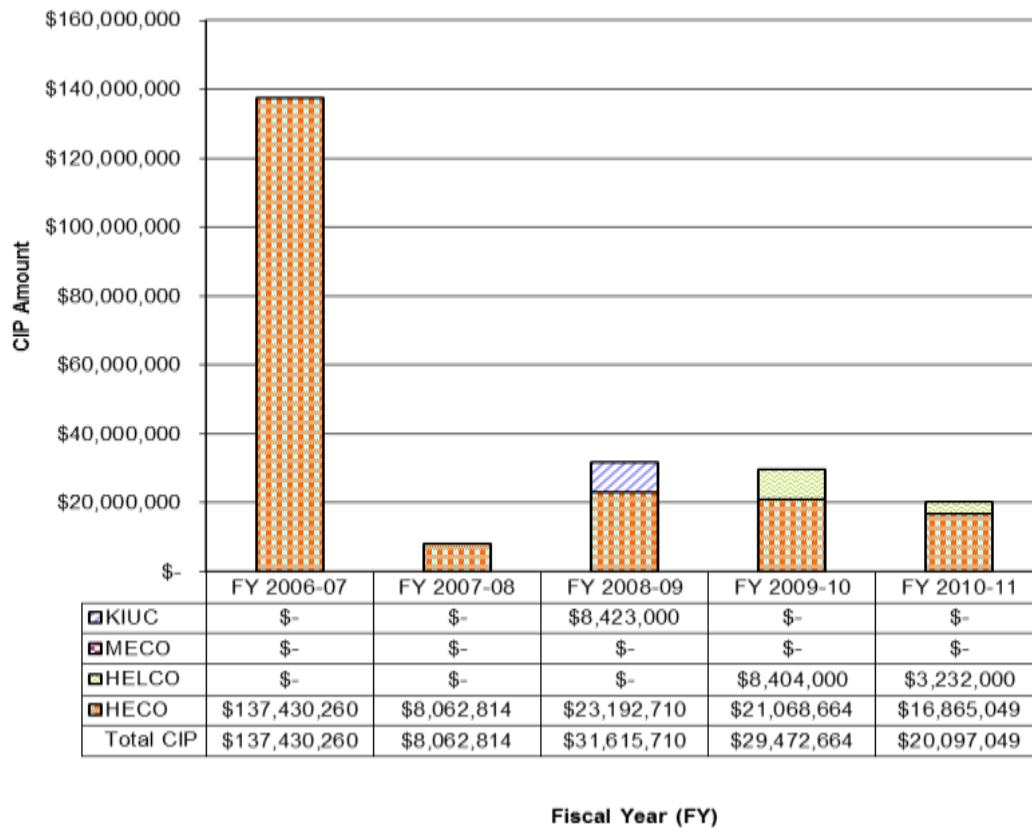
During the Commission's 2010-2011 Fiscal Year, HECO was authorized to expend approximately \$16.9 million for its capital improvements. Expenditures include approximately \$6.7 million for Barbers Point Fuel Oil Tank 132 Renovation, approximately \$4.1 million for Mobile Radio Replacement and related Equipment, and \$6.1 million for Kahe Unit 1 Condenser Retube projects.

During this fiscal year, HELCO was authorized to expend approximately \$3.2 million for Waimea-Keamuku Project.

Primarily as a result of the increase to a \$2.5 million threshold, there were no CIP filings approved by the commission for MECO, or KIUC.

Figure 1

Five-Year Comparison of Commission Approved Electric Utility CIP



D. GAS PROCEEDINGS

The Gas Company, LLC ("TGC") is a duly franchised public utility providing gas service for residential, commercial, and industrial uses throughout the State. TGC's operations consist of the purchase, production, transmission, and distribution of gas through gas pipelines, and sale of synthetic natural gas ("SNG") and liquid propane gas.

A key proceeding in the gas service industry is summarized below:

1. THE GAS COMPANY'S 2010 TEST YEAR RATE CASE Docket No. [2008-0081](#)

In August 2008, TGC filed its application for a general rate increase of \$12,510,047 over revenues at present rates for its Oahu, Maui, Kauai, Hawaii (Hilo and Kona), Molokai, and Lanai utility districts. TGC requested rate relief based on an estimated total revenue requirement of \$160,416,523 for the 2009 calendar test year (consolidated operations basis), and an overall rate of return of 8.81 per cent. Statewide public hearings were held by the Commission in Fall 2008.

In June 2009, the Commission approved, on an interim basis, an increase in revenues over present rates of \$9,519,293 based on the 2009 calendar test year.

In April 2010, the Commission issued its final decision and order, approving an increase in revenues of \$9,211,450 or approximately 10.67% over revenues at present rates, for TGC based on a rate of return of 8.0 per cent and a total revenue requirement of \$95,538,302 for the Test Year (consolidated utility basis).

In June 2010, the Commission approved the Joint Refund Plan that will commence during the July 2010 billing cycle.

2. TGC'S BIO SYNTHESIS GAS PILOT PROJECT Docket No. [2010-0334](#)

In December 2010, The Gas Company ("TGC") filed an application seeking commission approval to: (1) expend \$2,235,425 for the design and installation of its proposed Bio Synthesis Pilot Project ("Pilot Project") and to include such amounts in its rate base; and (2) include cost for the triglyceride feedstock acquired and used for the Pilot Project in its fuel adjustment clause. TGC and Consumer Advocate's Stipulated Procedural Order was approved by the Commission in March 2011. Upon a round of discovery and request for and approval of an extension of time, the Consumer Advocate submitted its Statement of Position on July 13, 2011. By letter filed on July 22, 2011, the Consumer Advocate confirmed TGC's assertion filed on July 21, 2011, that the remaining steps of the approved Stipulated Procedural Order are no longer necessary. A decision on this matter is pending.

E. TELECOMMUNICATIONS PROCEEDINGS

The Commission oversees the intrastate cellular, paging, mobile telephone, and other services of telecommunications providers in addition to the services of Hawaiian Telcom, Inc. ("Hawaiian Telcom"), formerly known as Verizon Hawaii Inc. ("Verizon Hawaii"), the State's only incumbent local exchange carrier and largest provider of intrastate services.

Key activities in telecommunications are highlighted below.

1. NEW TELECOMMUNICATIONS CARRIER CERTIFICATIONS

The Commission certificated 12 new telecommunications companies in the Fiscal Year, which were resellers of various intrastate wireless, calling card, and interexchange (long distance) telecommunications services.

2. CHAPTER 11 PLAN OF REORGANIZATION OF HAWAIIAN TELCOM, INC. ("HT") AND HAWAIIAN TELCOM SERVICES COMPANY, INC. ("HTSC") **Docket No. [2010-0001](#)**

In January 2010, HT and HTSC filed an application requesting Commission approval of the Plan of Reorganization ("Plan") of Hawaiian Telcom Communications, Inc. and its debtor affiliates confirmed by the U.S. Bankruptcy Court for the District of Hawaii in *In re Hawaiian Telcom Communications, Inc., et al.*, Case No. 08-02005, including the security arrangements associated with the Plan that directly affect HT and HTSC, to the extent required. In addition, HT and HTSC requests other Commission approvals triggered by HRS Chapter 269, including HRS §§ 269-7, 269-17 and 269-19 to effectuate and carry out the Plan or any portions of the Plan.

The participants of the proceeding (tw telecom of hawaii, l.p. and the International Brotherhood of Electrical Workers, Local 1357) and the Consumer Advocate conducted discovery regarding HT and HTSC's request and filed their position statements on May 10, 2010 and May 6, 2010, respectively. In June 2010, HT and HTSC filed their joint Response/Rebuttal Statement to the Consumer Advocate's and Participants' Position Statements.

In September 2010, the Commission issued its Decision and Order approving applicable portions of the Reorganization Plan. In addition, the Commission approved related financing arrangements to the extent necessary to effectuate and carryout the Reorganization Plan, and required HT and HTSC to adhere to certain regulatory conditions.

In October 2010, the Reorganization Plan was effectuated and HT Communications and its debtor affiliates including HT and HTSC emerged from bankruptcy

3. TELECOMMUNICATIONS RELAY SERVICES ("TRS") CONTRIBUTION FACTOR AND FUND SIZE MODIFICATION **Docket No. [2011-0095](#)**

In May 2011, the Commission initiated an investigation to examine whether to modify the TRS carrier contribution factor and fund size, effective July 1, 2011. In June 2011, the Commission approved a contribution factor of 0.0012 and established the annual projected TRS fund size at approximately \$218,640, effective July 1, 2011, for the 2011 TRS funding period and each period going forward, until revised otherwise by the commission.

4. TRANSFER OF CONTROL

Hawaii Revised Statutes § 269-16.9 allows the Commission to waive regulatory requirements applicable to telecommunications providers if it determines that competition will

serve the same purpose as public interest regulation. Specifically, Hawaii Administrative Rules § 6-80-135 permits the Commission to waive the applicability of any of the provisions of Hawaii Revised Statutes chapter 269 or any rule, upon a determination that a waiver is in the public interest. Waivers were granted in the following proceedings:

- **PUBLIC COMMUNICATIONS SERVICES, INC. and GLOBAL TEL*LINK CORPORATION – Docket No. [2010-0150](#)**
- **PAETEC HOLDING CORP. and TALK AMERICA, INC. - Docket No. [2010-0177](#)**
- **ITC^DELTACOM, INC. and EARTHLINK, INC. - Docket No. [2010-0281](#)**
- **STI PREPAID, LLC and VIVARO CORPORATION - Docket No. [2010-0284](#)**
- **ZONE TELECOM, INC. - Docket No. [2010-0289](#)**
- **VOICECOM TELECOMMUNICATIONS, INC., VOICECOM TELECOMMUNICATIONS, LLC, and AMVENSYS TELECOM HOLDINGS, LLC - Docket No. [2011-0013](#)**
- **GLOBAL CAPACITY GROUP, INC. and GC PIVOTAL, LLC - Docket No. [2011-0041](#)**
- **BELLSOUTH LONG DISTANCE, INC. – Docket No. [2011-0049](#)**
- **SECURUS TECHNOLOGIES, INC. – Docket No. [2011-0075](#)**
- **LEVEL 3 COMMUNICATIONS, INC., APOLLO AMALGAMATION SUB, LTD., LEVEL 3 COMMUNICATIONS, LLC, BROADWING COMMUNICATIONS, LLC, WILTEL COMMUNICATIONS, LLC and GLOBAL CROSSING NORTH AMERICA, INC., GLOBAL CROSSING TELECOMMUNICATIONS, INC. – Docket No. [2011-0079](#)**
- **VALUE-ADDED COMMUNICATIONS, INC. AND GLOBAL TEL*LINK CORPORATION - Docket No. [2011-0106](#)**

5. T-MOBILE WEST CORPORATION

Docket No. [2010-0119](#)

In March 2011, the Commission designated T-Mobile West Corporation as an eligible telecommunications carrier for the State of Hawaii (with the exception of the Hana district on the island of Maui), thereby making the telecommunications carrier eligible to receive federal universal support from the federal universal service fund.

**6. SELECTION OF TELECOMMUNICATIONS RELAY SERVICES
("TRS") PROVIDER**

Docket No. [2010-0302](#)

In November 2010, the Commission opened a proceeding to investigate the availability of experienced providers of quality TRS and to select the best qualified provider for the service period commencing from July 1, 2011 to June 30, 2014 ("Service Period"). To make its selection, the Commission issued a request for services ("RFS") on March 14, 2011. Two entities, Sprint Communications Company, Inc. ("Sprint") and Hamilton Relay, Inc., filed proposals in response to the RFS. An evaluation committee was formed to assess the proposals and make a recommendation to the Commission.

By Decision and Order issued in April 2011, the Commission adopted the evaluation committee's selection of Sprint as the exclusive provider of intrastate TRS in the State of Hawaii for the Service Period, conditioned upon the execution of the TRS contract with Sprint.

**7. HAWAIIAN TELCOM, INC. AND HAWAIIAN TELCOM SERVICES
COMPANY, INC.'S DEBT REFINANCING**

Docket No. [2011-0124](#)

On May 26, 2011, Hawaiian Telcom, Inc. and Hawaiian Telcom Services Company, Inc. ("Applicants") submitted an application seeking commission approval to modify their existing financing arrangements (i.e., \$300 million secured term loan and \$30 million secured revolving credit facility) to, among other things, obtain better terms and conditions. By Decision and Order filed on June 17, 2011, the Commission approved Applicants' proposed modifications to their financing arrangements and related matters as set forth in their application.

**8. COMMISSION RECEIVES NO APPLICATIONS FOR APPROVAL
OF CAPITAL EXPENDITURES DURING FISCAL YEAR**

Prior to July 1, 2004, telecommunications carriers were required by the Commission's administrative rules to obtain approval for all CIP expenditures over \$500,000. Similar to the threshold applicable to electric utilities, effective July 1, 2004, the threshold for telecommunications utilities increased from \$500,000 to \$2.5 million. Accordingly, only those applications requesting approval for CIP expenditures over \$2.5 million must be submitted to the Commission for review. During the Fiscal Year, Hawaiian Telcom did not file any requests for CIP approvals. For the past five (5) years, there were no CIP filings approved by the commission.

F. PRIVATE WATER AND SEWAGE UTILITIES PROCEEDINGS

The Commission regulates 38 privately owned water and sewage treatment utilities that serve suburban, rural, and resort areas throughout the State. The majority of these utilities are located on the neighbor islands.

During the Fiscal Year, the Commission's key proceedings in this area included rate cases and requests for Certificates of Public Convenience and Necessity ("CPCNs").

1. RATE INCREASES DOCKETS

During this Fiscal Year, the Commission reviewed rate increases for the following water and sewage utilities:

- **Hawaii Water Service Company, Inc. – Ka'anapali Division - Docket No. [2009-0310](#)**
- **Hawaii-American Water Company – Docket No. [2010-0313](#)**
- **Olowalu Water Company, Inc. – Docket No. [2010-0340](#)**
- **South Kohala Water Corporation – Docket No. [2010-0064](#)**

2. NEW AND AMENDED CPCNS

During the Fiscal Year, the Commission reviewed new and amended CPCNs for water and sewage utilities, including the following:

- **South Kohala Water Corporation - Docket No. [2010-0064](#)**
- **Kona Water Service Company - Docket No. [2010-0180](#)**

3. MOLOKAI PUBLIC UTILITIES, INC. GENERAL RATE INCREASE REQUEST Docket No. [2009-0048](#)

Molokai Public Utilities, Inc. ("MPU") is a public utility that provides potable water service in the Kaluakoi area on the island of Molokai.

In June 2009, MPU filed its amended application for a general rate increase, seeking an increase in revenues of \$886,259 (approximately 201.5%), based on the July 1, 2009 to June 30, 2010 test year. In May 2010, the Commission issued its Interim Decision and Order, approving an increase in revenues over present rates of \$542,724 (approximately 125%) for MPU, based on a total revenue requirement of \$976,375. MPU's Phase 1 interim rates took effect on July 1, 2010. In September 2010, the Commission issued its Decision and Order, approving an increase in revenues over present rates of \$548,682 (approximately 126.52%) for MPU, based on a total revenue requirement of \$982,333. MPU's Phase 1 interim rates, which took effect on July 1, 2010, remained in effect for a six-month period through December 31, 2010. On January 1, 2011, MPU's Phase 1 final rates took effect.

In October 2010, Intervenor County of Maui appealed the Commission's Decision and Order to the State of Hawaii, Intermediate Court of Appeals ("ICA"). Written briefs have been filed with the ICA by Appellant/Intervenor County of Maui, and Appellees MPU, the Consumer Advocate, and the Commission. The ICA's written decision is pending.

**4. WAI'OLA O MOLOKA'I INC. GENERAL RATE INCREASE
REQUEST
Docket No. [2009-0049](#)**

In June 2009, Wai'ola filed an amended application for a general rate increase. Wai'ola is seeking additional revenues of \$473,431 or an approximate 382.85 per cent increase, over the pro forma revenue requirement for the July 1, 2009 to June 30, 2010 test year and a rate of return of 2 per cent. In addition, as part of its amended application, Wai'ola also proposed to: (1) establish an Automatic Power Cost Adjustment Clause, which permits adjustments for electric costs during the year, and amend Rule 20 of its Rules and Regulations to increase its Reconnection Charge from \$50.00 to \$100.00, which is an increase of 100 per cent.

In September 2009, the Commission held a public hearing on Wai'ola's amended application on the island of Molokai. The parties to this proceeding, Wai'ola, the Consumer Advocate, Molokai Properties Limited, and the County of Maui, conducted discovery and filed their respective direct and rebuttal testimonies in this proceeding. On May 19 and 20, 2010, the Commission held an evidentiary hearing regarding the matters of this docket.

On May 28, 2010, the Interim Decision and Order and the Dissenting Opinion of Leslie H. Kondo, Commissioner was issued. In the Interim Decision and Order, the Commission approved, on an interim basis, an increase in revenues over present rates of \$241,478 (approximately 223%) for Wai'ola, based on the July 1, 2009 to June 30, 2010 test year, and a total revenue requirement of \$329,877. In addition, the Commission approved Wai'ola and the Consumer Advocate's proposal to apply the increase on an "across-the-board, three-step phased-in basis", for interim purposes.

On February 2011, the Commission issued its Decision and Order approving an increase in revenues over present rates of \$360,238 (approximately 284.5%) for Wai'ola, based on the July 1, 2009 to June 30, 2010 test year and total revenue requirements of \$486,856. On March 2011, the County of Maui, a party to the proceeding, appealed the Commission's February 2011 Decision and Order to the Intermediate Court of Appeals of the State of Hawaii ("ICA"). This matter is currently before the ICA. In June 2010, notice was provided to the parties of the availability of the official transcripts triggering the filing of post-hearing pleadings.

G. MOTOR CARRIERS PROCEEDINGS

The Commission regulates passenger and property motor carriers. Passenger carriers are classified by authorized vehicle seating capacity. They include tour companies, limousine services, and other transportation providers. Property carriers are classified by the types of commodities transported and the nature of services performed, namely: general commodities, household goods, commodities in dump trucks, and specific commodities.

By law, certain transportation services, including, without limitation, taxis, school and city buses, ambulance services, refuse haulers, farming vehicles, and persons transporting personal property, are exempt from Commission regulation.

Many of the State's motor carriers are members of either the Western Motor Tariff Bureau, Inc. ("WMTB") or the Hawaii State Certified Common Carriers Association ("HSCCCA"). WMTB and HSCCCA are nonprofit organizations engaged in the research, development, and publication of motor carrier tariffs. The two organizations represent their members in ratemaking proceedings before the Commission.

In accordance with its statutory requirements, the Commission performs the following functions in the regulation of motor carriers: (1) certification and licensing; (2) ratemaking; and (3) business regulation. During the Fiscal Year, the Commission issued many new certificates and licenses, reviewed requested rate increases, and extended the zone of reasonableness program for motor carriers to December 2011.

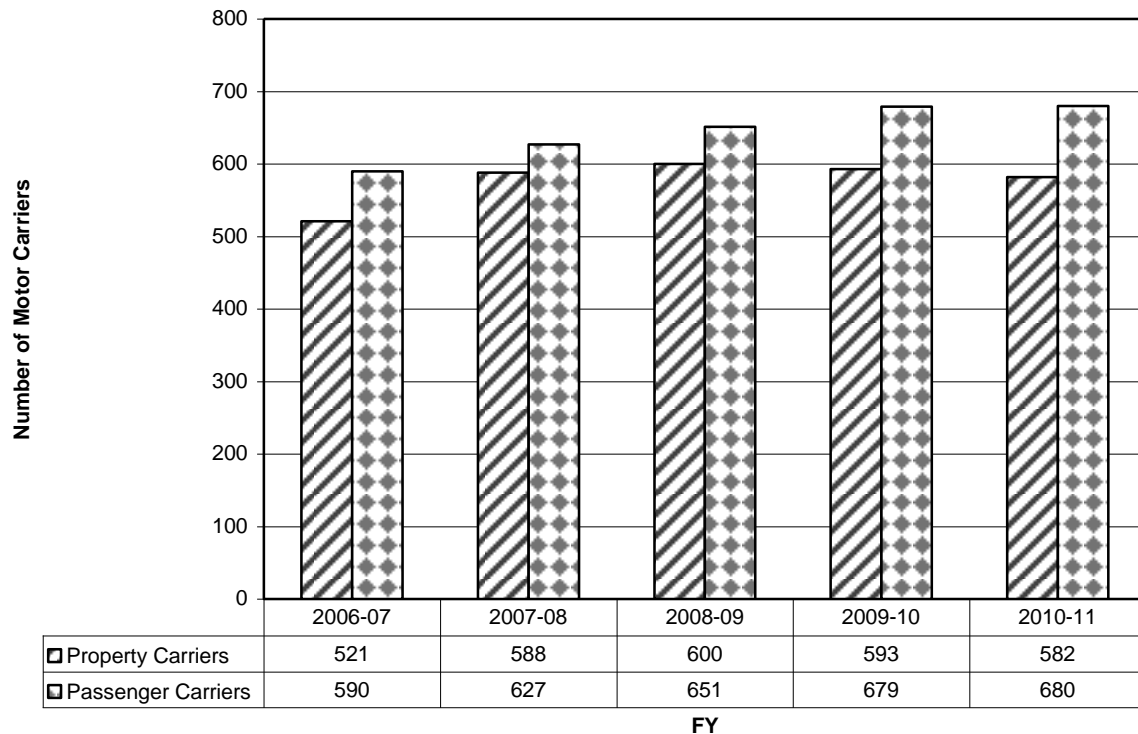
1. NEW MOTOR CARRIER CERTIFICATIONS

The Commission regulates 680 passenger carriers and 582 property carriers in the State. During the Fiscal Year, new certificates or permits were issued to 58 motor carriers, 41 passenger carriers and 17 property carriers.

In the Fiscal Year, the number of authorized passenger carriers increased over the previous fiscal year, as shown in Figure 2.

Figure 2

Number of Active Motor Carriers



2. REQUESTS FOR RATE CHANGES

During the Fiscal Year, the Commission reviewed and approved rate increases and decreases within and outside of the zone of reasonableness program, which went into effect on January 1, 2004 and continues through December 31, 2011. During the Fiscal Year, all Western Motor Tariff Bureau, Inc. ("WMTB") motor carriers filed requests for rate changes. Of the independent motor carriers, the Commission reviewed and approved requests from 73 motor carriers. The Commission reviewed and approved the following motor carrier increases and decreases:

Rate Changes Within the Ten (10) Per Cent Zone Limit.

For the rate changes that were within the zone limit of ten (10) percent, most were for rate increases of five (5) or ten (10) percent. Other rate increases ranged from less than two (2) to four (4) percent. The Commission approved the following motor carrier increases and decreases within the zone:

FISCAL YEAR JULY 2010 - JUNE 2011
Rate Changes Within the Ten (10) Percent Zone Limit

<u>Type of Carrier/Company (County)</u>	<u>Rate Increase or (-Decrease)</u>
<u>Dump Truck</u>	
SKF Services, LLC	Oahu 10%
Harris Trucking, Inc.	Oahu (-10%)
West Maui Land Company, Inc.	Maui 10%
Tri Isle Inc.	Maui 8.51%
Kalaka Nui, Inc.	Oahu 10%
Fredstan Kaluahine dba Fredstan Kaluahine's Towing	Kauai 10%
C. J. Peterson Services Inc.	Oahu 10.00%
WMTB-Keaau Service Station, Inc.	Hawaii 6%
WMTB - All Carriers - Maui	Maui (-6%)
Conen's Freight Transport, Inc.	Hawaii 10.00%
Ed Yamashiro, Inc.	Oahu 4.7-5%, (-3.31%)
ER Ranch & Services, LLC	Maui 10.00%
Tri Isle Inc., dba Valley Isle Express, & dba Haleakala Trans	Maui 5.00%
WMTB - All Carriers - Maui	Oahu 4%
WMTB - All Carriers - Maui	Kauai 10%
Pomaika'i Transport Services, Inc.	Oahu 10%
<u>General Commodities</u>	
Harris Trucking, Inc.	Oahu (-10%)
Hawaii Transfer Company, LTD.	Oahu 4.00%
Tri Isle Inc., dba Valley Isle Express, & dba Haleakala Trans	Maui 8.51%
Kalaka Nui, Inc.	Oahu .7 - 10%
Pacific Transfer, LLC	Oahu 5.00%
Hitco Moving & Storage dba H. Kono, Inc.	Hawaii 10.00%
International Express, Inc.	Oahu 5.00%
Mercantile Trucking Service, LTD.	Oahu 10.00%
Hawaii Transfer Company, LTD.	Oahu 2.12%
Alven Corp., dba Hawaii Logistic Services	Oahu 6.00%
C. J. Peterson Services Inc.	Oahu 10.00%
WMTB-Imperial Trucking, Inc.	Oahu 5.00%
International Express, Inc.	Oahu 8.00%
WMTB-Keaau Service Station, Inc.	Hawaii 6%
Alven Corp, dba hawaii Logistic Services	Oahu 1.14-9.09%
Conen's Freight Transport, Inc.	Hawaii 10.00%
Dependable Hawaiian Express, Inc., dba DHX	Oahu 5.00%

DHX Maui, Inc.	Maui	5.00%
Ed Yamashiro, Inc.	Oahu	5.00%
ER Ranch & Services, LLC	Maui	10.00%
Hawaii Transfer Company, LTD.	Oahu	2.07-10%
International Express, Inc.	Oahu	3.00%
Royal Hawaiian Movers, Inc.	O,M,H,K	5%
Tri Isle Inc., dba Valley Isle Express, & dba Haleakala Trans	Maui	5.00%
Direct Support Resources, Inc.	Oahu	3-5%
G.P. Services LLC	Maui	7-10%
Pomaika'i Transport Services, Inc.	Oahu	10%

Household Goods

Honolulu Freight Service, Inc.	Oahu	6.00%
WMTB-HHG - Statewide	O,M,H,K	5%
Royal Hawaiian Movers, Inc.	O,M,H,K	5%
Honolulu Freight Service, Inc.	Oahu	(-.93%)

Others (Specific Commodities)

WMTB -Bering Sea Ecotech, Inc.	Oahu	1.50%
Fredstan Kaluahine dba Fredstan Kaluahine's Towing	Kauai	10.00%
WMTB -AI Local & Joint Freight Carriers on Kauai	Kauai	10%
Honolulu Freight Service, Inc.	Oahu	5%

Break Bulk and Delivery

Tri Isle Inc.	Maui	8.51%
International Express, Inc.	Oahu	5.00%
Mercantile Trucking Service, LTD.	Oahu	10.00%
WMTB - Hitco Moving & Storage dba H. Kono, Inc.	Hawaii	10.00%
International Express, Inc.	Oahu	5.00%
Hawaii Transfer Company, LTD.	Oahu	5%
International Express, Inc.	Oahu	3.00%
Tri Isle Inc., dba Valley Isle Express, & dba Haleakala Trans	Maui	5.00%
Xpress Trucking, Inc.	O,M	5%
WMTB - All Carriers on Kauai	Kauai	10%
Dependable Hawaiian Express, Inc., dba DHX (Oahu)	Oahu	5%

Passenger

Elite Limousine Service, Inc.	Oahu	2.8-6.3%
Aina Ihi Ecotours, Inc.	Hawaii	(-5-10%)
RDH Trans Service dba Superstar Hawaii Transit	Oahu	2-5% (-4%)
Enoa Corporation	Oahu	1.16%-4.16%
Enoa Corporation	Oahu	1.78%-2.17%
Maui Executive Transportation Services, LLC	Maui	4-10%
Carey Hawaii, LLC	Oahu	.3of 1% to 5.1%
Enoa Corporation	Oahu	(-5.28-6.25%)
KapohoKine Adventures, LLC	Hawaii	10%

Rate Changes Outside the Ten (10) Per Cent Zone Limit. The Commission reviews requests for rate increases that do not fall within the zone of reasonableness. In its review of these requests, the Commission requests the motor carriers to submit financial statements containing the companies' revenues, expenditures, and operating ratio. The Commission approves the rate increase or decrease based on an acceptable operating ratio reported in the financial statement. During the Fiscal Year, the Commission reviewed and approved the following rate changes that did not fall within the zone of reasonableness:

<u>Type of Carrier/Company (County)</u>	<u>Rate Increase or Decrease</u>
<u>Passenger</u>	
A Absolutely Affordable and Reliable Shuttle, LLC	Oahu 7-40%
Jaime, Juan Jose, dba Hawaii Airport Shuttle	Oahu 6.25-33.33%
<u>Property</u>	
None	

H. WATER CARRIERS PROCEEDINGS

The Commission regulates four water carriers: Young Brothers, Limited ("Young Brothers"), a provider of inter-island cargo service between all major islands; Sea Link of Hawaii, Inc. ("Sea Link"), a passenger and cargo carrier providing water transportation services between the islands of Maui and Molokai; Hone Heke Corporation ("Hone Heke"), a passenger and cargo carrier providing water transportation services between the islands of Maui and Lanai; and Pasha Hawaii Transport Lines LLC ("Pasha"), a provider of cargo service between the ports of Honolulu, Kahului, and Hilo with authorization to make calls to Nawiliwili, Barbers Point, and Pearl Harbor upon a customer's request. Water carrier docket proceedings are summarized below.

1. YOUNG BROTHERS' REQUEST FOR A RATE INCREASE PURSUANT TO ITS NEW ZONE PRACTICE Docket No. [2001- 0255](#)

In June 2011, the Commission terminated the Zone of Reasonableness rate adjustment program for Young Brothers, reasoning that the program was no longer consistent with the public interest.

2. PASHA HAWAII TRANSPORT LINES LLC'S REQUEST FOR A CPCN Docket No. [2009-0059](#)

On September 20, 2010, the Commission issued an Interim Decision and Order approving Pasha Hawaii Transport Lines LLC's ("Pasha") application for a Certificate of Public Convenience and Necessity ("CPCN"). The Interim Decision and Order authorizes Pasha to operate as a water carrier of property on an interim basis through December 31, 2013. Pasha's interim CPCN is limited to the use of only one vessel, the M/V Jean Anne, to be operated on a fortnightly service schedule (i.e., every fourteen days) between and among the ports of Honolulu, Kahului, and Hilo. Pasha is also authorized to make calls to Nawiliwili, Barbers Point, and Pearl Harbor upon a customer's request.

In granting interim approval, the Commission found that Pasha's proposed intrastate operations will foster competition in the intrastate shipping industry, provide consumers with a choice of intrastate water carriers, and minimize any potential harm or inconvenience to the public if existing services were disrupted. The Commission also found no specific, verifiable evidence in the record that Pasha's proposed service will detrimentally harm the public or other intrastate water carriers. At the same time, however, the Commission recognized that, without actual data, it is difficult to properly evaluate how the entry of a new carrier may affect existing services. As a result, the Commission chose to allow Pasha to operate on an interim basis so that the Commission can obtain actual intrastate revenue, cargo volume and cost support data to make a more informed final decision.

The Interim Decision and Order allows the parties to submit supplemental comments, expert testimony, and other evidence to the Commission for consideration. It also includes extensive reporting requirements and other protections to ensure that there will be no significant adverse impacts to existing water carriers or the general public during the pendency of further proceedings. Furthermore, the Commission has the authority to terminate Pasha's interim authority to operate if, at any time, the Commission determines that Pasha's intrastate service causes undue harm to existing intrastate shipping services or the public interest.

On December 29, 2010, Young Brothers, Limited ("YB") appealed the Commission's Interim Decision and Order to the Intermediate Court of Appeals of the State of Hawaii ("ICA"). The Division of Consumer Advocacy of the Department of Commerce and Consumer Affairs

followed suit by filing a cross-appeal on January 12, 2011. Those appeals are currently pending before the ICA.

In addition, Act 213 was recently enacted by the legislature to amend certain provisions of Chapter 271G of the Hawaii Revised Statutes. Act 213, which is effective as of July 1, 2011, specifies in part that the Commission “shall not make a finding of public convenience and necessity nor issue a certificate if the evidence in the record indicates that the issuance of the certificate would diminish an existing water carrier’s ability to realize its allowed rate of return or if the certificate would allow an applicant to serve only high-margin or high profit ports or lines of service that are currently served by an existing carrier.” The Commission will be further reviewing Pasha’s Interim CPCN in light of Act 213 and any subsequent decisions by the ICA.

**3. YOUNG BROTHERS, LIMITED – APPROVAL TO ENTER
INTO A LONG-TERM LEASE FOR PHOTOVOLTAIC
EQUIPMENT WITH PNC ENERGY CAPITAL, LLC
Docket No. [2010-0282](#)**

In November 2010, the Commission approved a long-term lease between YB and PNC Energy Capital, LLC, for the installation and operation of photovoltaic equipment atop YB’s maintenance shed in Honolulu for the purpose of powering the water carrier’s shore-side maintenance operations.

**4. YOUNG BROTHERS, LIMITED’S REQUEST FOR
GENERAL RATE INCREASE
Docket No. [2010-0171](#)**

On September 10, 2010, Young Brothers filed a Notice of Intent to file an application for a general rate increase and for certain tariff changes. On December 22, 2010, Young Brothers filed an application (“December 22 Application”), seeking commission approval to: (1) increase its commodity rates, fees, and charges; (2) make certain revisions to its Tariff 5-A; and (3) switch from a calendar monthly closing schedule to a closing schedule that, on a quarterly basis, would divide the reporting periods as follows: five weeks for the first period, four weeks for the second period, and four weeks for the third period within the quarter (referred to Young Brothers as its proposed “Five-Four-Four” quarterly schedule. Specifically, in the December 22 Application, Young Brothers requested approval to increase its revenues in the amount of \$14,404,000, or by 23.97 percent over revenues at current rates in the amount of \$60,079,767, at a proposed rate of return 14.12 percent.

On January 11, 2011, the Consumer Advocate filed its Statement of Position Regarding Completeness of Application (“Consumer Advocate’s January 11 SOP”). Based on its review of the December 22 Application, the Consumer Advocate stated that Young Brothers December 22 Application was incomplete since it did not comply with the filing requirements set forth in the Commission’s rules.

On January 27, 2011, Young Brothers filed a reply to the Consumer Advocate’s January 11 SOP. In its Reply, Young Brothers responded to each of the points raised by the Consumer Advocate regarding the completeness of Young Brothers’ December 22 Application.

On February 3, 2011, the Commission issued an order, rejecting Young Brothers’ December 22 Application without prejudice. Specifically, the Commission found that Young Brothers’ December 22 Application lacked the recorded actual results of operations for the prior calendar year, as required by the Commission’s rules. The Commission, however, allowed Young Brothers to re-file a new application in accordance with the Commission’s rules.

On February 11, 2011, Young Brothers filed a pleading entitled "Submission of Young Brothers, Limited in Response to Order Rejecting Application Without Prejudice Filed February 3, 2011" ("Submission"). Young Brothers, on March 1, 2011, filed a Motion for Clarification of Order Rejecting Application Without Prejudice Filed February 3, 2011, which the Commission dismissed as untimely on March 24, 2011.

On May 6, 2011, Young Brothers re-filed its Application for approval of a general rate increase and certain tariff changes. Included within the Application, Young Brothers offers two scenarios for the commission's consideration. Young Brothers states that "With Pasha Impact Reflected," it will need to increase its revenues by \$16,986,000, i.e., approximately 28.68 percent over revenues at present rates in the amount of \$59,216,236, and a proposed rate of return of 14.12 percent on the water carrier's average depreciated rate base (for its intrastate water carrier operations). Young Brothers alternatively notes that "Without Pasha Impact Reflected," it will need an increase in revenues in the amount of \$13,591,000, or approximately 22.50 percent over revenues at present rates in the amount of \$60,397,356, with a projected rate of return of 11.97 percent.

On May 6, 2011, Young Brothers re-filed its application, exhibits, and direct testimonies. Specifically, Young Brothers seeks the Commission's approval to increase its revenues by \$14,195,000, and not more than \$14,404,000, the rate increase requested in its original application filed on December 22, 2011, or by approximately 23.97 percent over revenues at present rates, based on a 2011 calendar test year and a proposed rate of return of 14.12 percent, but with an effective rate of return of 11.68 percent given Young Brothers' proposed reduction of revenue requirements, on the water carrier's average depreciated rate base (for its intrastate water carrier operations). For specific cargo types, Young Brothers proposes rate increases ranging from 14% to 38.7%, as follows: dry containers (including flatracks and platforms), 15%; refer containers, 18%; automobiles and roll-on/roll-off cargo, 14%; and G-vans, pallets, and mixed cargo, 38.7%. As part of its application, Young Brothers also proposes certain other changes to its tariff.

On July 25, 2011, the Consumer Advocate filed its testimonies, exhibits and workpapers on Young Brothers' results of operations. On August 26, 2011, the Consumer Advocate filed its testimonies, exhibits, and workpapers on Young Brothers' cost of capital, revenue requirement, and rate design. On September 23, 2011, Young Brothers filed rebuttal testimonies and exhibits.

Pursuant to the parties' request, the Commission will hold an evidentiary hearing limited to certain issues in dispute on November 1. The Commission's statutory deadline by which to file a final decision and order is December 16, 2011.

VIII. ENFORCEMENT ACTIVITIES

The Commission enforces its rules and regulations, standards, and tariffs by monitoring the operating practices and financial transactions of the regulated utilities and transportation carriers. Enforcement activities involve customer complaint resolution, compliance with financial reporting and other requirements, and motor carrier citations. These enforcement activities are critical in ensuring that customers of the regulated companies receive adequate and efficient services.

A. COMPLAINT RESOLUTION

The Commission's role in protecting the public is carried out in part through its investigation and resolution of complaints. The Commission collects and compiles utility and consumer complaints to track trends and patterns in the utility and transportation industries. The Commission accepts verbal and written complaints against any public utility, water carrier, motor carrier, or others subject to the Commission's jurisdiction. Verbal complaints are received by telephone, or in person at the Commission's office. There are two (2) kinds of written complaints -- formal and informal.

The Commission's rules of practice and procedure, Chapter 6-61, HAR, provide the requirements for formal and informal written complaints. Written formal complaints should: (1) be in writing; (2) comply with filing and other requirements set forth in Sections 6-61-15 to 6-61-21, HAR; (3) state the full name and address of each complainant and of each respondent; (4) set forth fully and clearly the specific act complained of; and (5) advise the respondent and the Commission completely of the facts constituting the grounds of the complaint, the injury complained of, and the exact relief desired. If the Commission accepts a formal complaint for adjudication, it assigns a docket number and sets the matter for an evidentiary hearing, if necessary.

Written informal complaints should: (1) state the name of the respondent, the date and approximate time of the alleged act, and set forth fully and clearly the facts of the act complained of; (2) advise the respondent and the Commission in what respects the provisions of the law or rules have been or are being violated or will be violated and should provide the facts claimed to constitute the violation; and (3) specify the relief sought or desired. The Commission assigns a tracking number to each written informal complaint filed with the Commission and also assigns these complaints to certain Commission staff, who are tasked to, among other things, investigate and attempt to resolve the complaints through correspondence or conference rather than through the formal complaint process.

1. WRITTEN INFORMAL COMPLAINTS

As shown in the table below, the Commission received a total of 124 written informal complaints in the Fiscal Year against regulated and unregulated utility and transportation companies. Complaints on Oahu amounted to 76 out of 124 complaints statewide, or 61 per cent of the total complaints.

<u>Total Informal Complaints</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>
<u>Utilities</u>			
Telecommunications:			
Wire line (telephone)	51	27	30
Cellular and Paging	28	36	32
Other	<u>0</u>	<u>7</u>	<u>1</u>
Total Telecom	79	70	63
Electricity	52	31	30
Gas	10	7	4
Water/Sewer	13	6	5
Other	0	0	5
<u>Transportation Carriers</u>			
Water Carrier	1	1	0
Motor Carrier	<u>18</u>	<u>22</u>	<u>17</u>
Total Complaints	173	137	124

For all islands, the Commission received 63 written informal complaints involving telecommunications providers. The majority of telecommunications complaints (23) related to Hawaiian Telcom and mainly involved billing disputes. The cellular and paging companies received 32 complaints, mostly relating to billing problems (service contracts and charges).

The electric utilities received 30 complaints, mostly relating to billing problems (high consumption). The 4 complaints against gas utilities were related to gas leaks and high consumption. The 5 complaints relating to water and sewer facilities dealt primarily with billing (high consumption) problems. Twelve of the 17 complaints against motor carriers were related to moving companies. These complaints mainly involved excessive charges and damaged and missing items.

2. INFORMAL COMPLAINT SURVEY

In an effort to improve the Commission's service to consumers, a survey of informal written complaints filed in the Fiscal Year with the Commission was initiated in Fiscal Year 2003-04. A survey is sent to complainants whose informal complaint cases are closed. The survey includes four (4) questions: (1) Do you feel that we responded to your complaint in a reasonable amount of time?; (2) Did we provide you with a response that was clear and understandable?; (3) Was your complaint resolved to your satisfaction?; and (4) If you called us and spoke with our staff, were they courteous and professional?

In the Fiscal Year, the Commission received 13 responses to its informal complaint survey. Figure 3 to 6 show the results of the survey.

Figure 3

INFORMAL COMPLAINT SURVEY

Fiscal Year 2010-11

1-Do you feel we responded to your complaint in a reasonable amount of time?

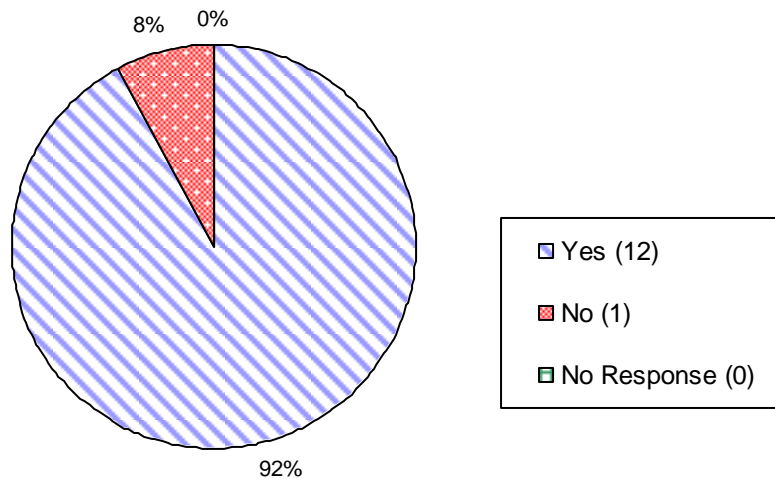


Figure 4

INFORMAL COMPLAINT SURVEY

Fiscal Year 2010-11

2-Did we provide you with a response that was clear and understandable?

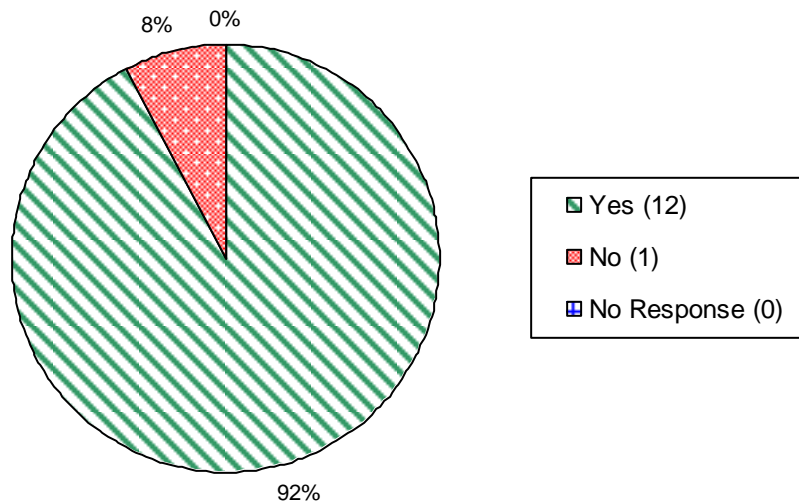


Figure 5

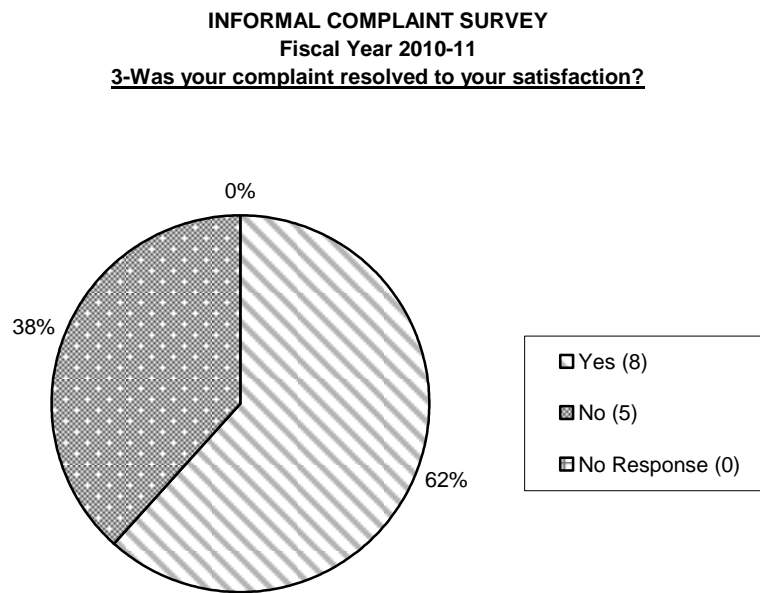
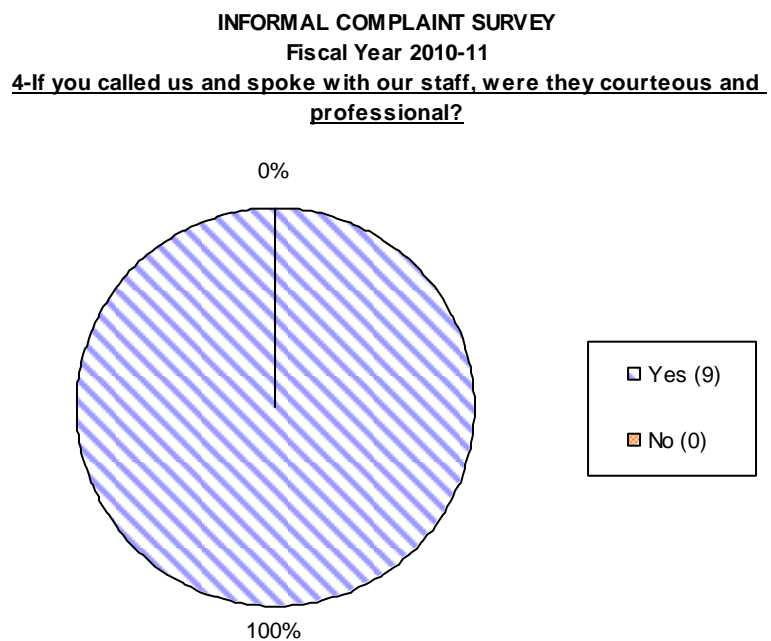


Figure 6



B. MOTOR CARRIER CITATIONS

The Commission issues civil citations to motor carriers for violations of the Motor Carrier Law, HRS Chapter 271. The citations impose a civil penalty, typically \$500 or \$1,000 per violation. At the request of the Commission, the State Department of Transportation is authorized to assign the department's motor vehicle safety officer to assist the Commission in assessing civil penalties.

The Commission has been successful in its efforts to enforce the law by issuing citations to discourage illegal motor carrier activities on Oahu and the neighbor islands. Some of the common types of motor carrier citations relate to operating without a CPCN, the failure to maintain the required liability insurance and improper vehicle marking. For this Fiscal Year, civil penalties collected through motor carrier citations totaled \$15,364.

The Commission enforcement officers issued 28 motor carrier citations on the following islands: Oahu (15), Maui (7), and Hawaii (6).

Motor Carrier Citations

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
# of Citations Issued					
Oahu	77	22	29	14	15
Maui, Molokai & Lanai	13	3	0	0	7
Kauai	6	0	0	0	0
Hawaii	10	5	1	2	6
Total # of Citations Issued	106	30	30	16	28
Total Civil Penalties Collected	\$52,900	\$82,082	\$22,000	\$69,100	\$15,364

IX. INQUIRIES

In addition to consumer complaints, the Commission is responsible for collecting and compiling all inquiries concerning public utilities. Commission staff receives various requests for information relating to utilities, transportation carriers, gasoline price cap, one call center, general regulated matters, and non-regulated matters. As shown in the table below, the Commission received a total of 1,085 inquiries in the Fiscal Year, mostly relating to motor carriers.

Total Inquiries			
<u>Fiscal Year</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>
Utilities:			
Telecommunications	239	103	71
Electric	428	50	170
Gas	28	76	74
Water/Sewer	25	56	37
Transportation Carriers:			
Property Motor Carrier	431	380	331
Passenger Motor Carrier	404	67	307
General Motor Carrier	42	0	0
Water Carrier	17	77	88
Petroleum	4	3	7
One Call Center	0	0	0
General Regulated & Unregulated	<u>0</u>	<u>0</u>	<u>0</u>
Total Inquiries	1,618	812	1,085

X. HAWAII ONE CALL CENTER

The 2004 Legislature passed Act 141, SLH 2004 ("Act 141"), which established a one call center to coordinate the location of subsurface installations and to provide advance notice to subsurface installation operators of proposed excavation work. Pursuant to Act 141 (codified as chapter 269E, HRS), the Commission was required to establish a One Call Center advisory committee ("Committee") to advise the Commission on the implementation of Act 141. Act 141 required that the Commission establish and begin administration of the One Call Center by January 1, 2006.

In November 2005, the Commission selected and contracted with One Call Concepts, Inc. ("One Call Concepts") as the exclusive provider for the administration and operation of the Hawaii One Call Center, commencing December 1, 2005 through June 30, 2009. One Call Concepts provides one call services for one call centers in Minnesota, Kansas, Louisiana, Missouri, Oregon and Washington and has been providing one call center services since its formation in 1982. In January 2006, pursuant to HRS Chapter 269E, the Commission, through One Call Concepts, began operations of the One Call Center. On May 26, 2009, Governor Linda Lingle signed House Bill 1059 H.D.2 S.D.1 into law as Act 72 which changed the status of the State One Call Center program from a pilot program to a permanent program. Shortly thereafter, the Commission entered into a formal extension of the One Call Concepts, Inc., contract for operation of the One Call Center through June 30, 2011. On January 19, 2011, the Commission issued a Request for Proposal (RFP) to contract for the future operation of the Hawaii One Call Center. On April 20, 2011, One Call Concepts was awarded as the exclusive provider for the administration and operation of the Hawaii One Call Center from July 1, 2011 to June 30, 2014.

The Committee was established by the Commission under Chapter 269E, HRS to advise the Commission in implementing the One Call Center. The Committee consists of 18 members appointed by the Commission from various sectors of the utility industry and government. In the FY 2011, the Advisory Committee held six meetings to deliberate on a variety of issues regarding the One Call Center. In November 2010 and May 2011, the One Call Concepts held training seminars on Oahu, Maui, Kauai and the Island of Hawaii. The training seminars educated participants in the many facets of the One Call Center law including notification of excavation, marking of excavation sites, identification of subsurface installations by operator, excavation procedures and more. There were approximately 200 participants who attended the training seminars.

The Commission and the Committee have been in the process of creating new administrative rules to supplement Chapter 269E in establishing operating procedures for the Hawaii One Call Center, the Commission, facility operators and excavators. A draft of the administrative rules has been approved by the Committee, the Attorney General's Office and more recently, the Small Business Regulatory Review Board (SBRRB). After the SBRRB's approval of the draft of the administrative rules, the SBRRB has allowed the Commission to commence a public hearings process for input and comments from interested parties on the draft rules. The Commission held public hearings on Maui, Kauai, Oahu and Hawaii Island. Comments from those hearings were reviewed by the Committee and the Commission. The Attorney General's Office is currently reviewing the draft and if approved, the draft will go to the SBRRB and the Lieutenant Governor's Office for final approval.

Figure 7

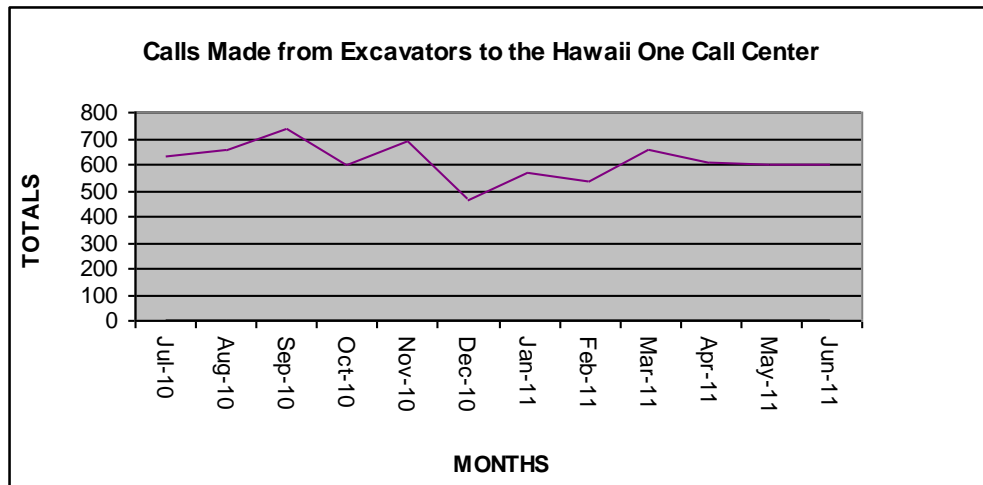


Figure 8

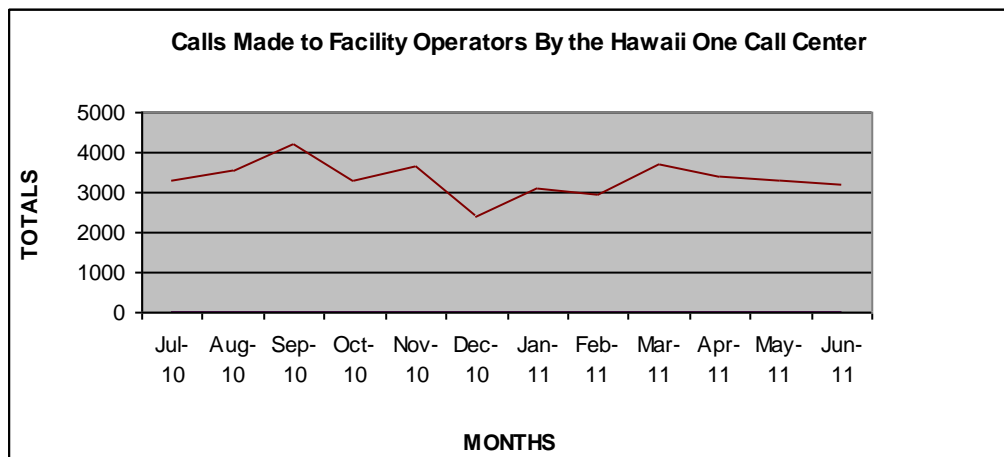
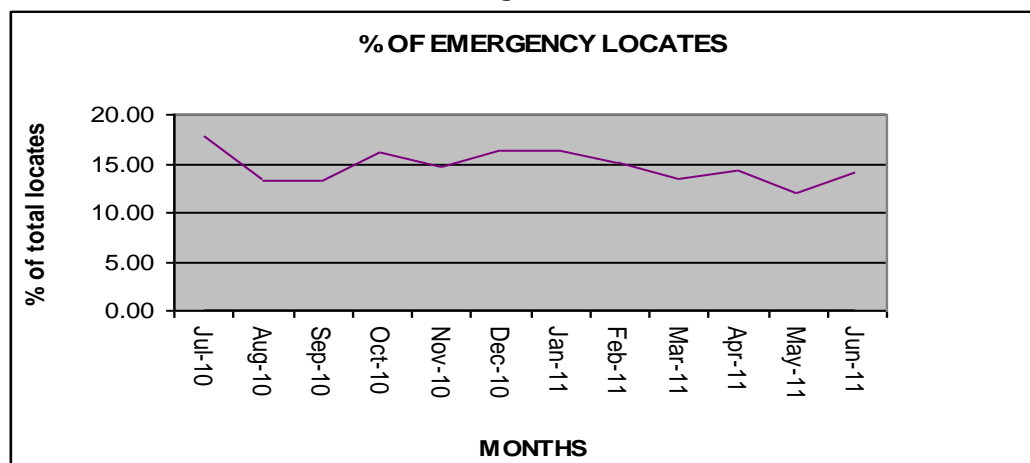


Figure 9



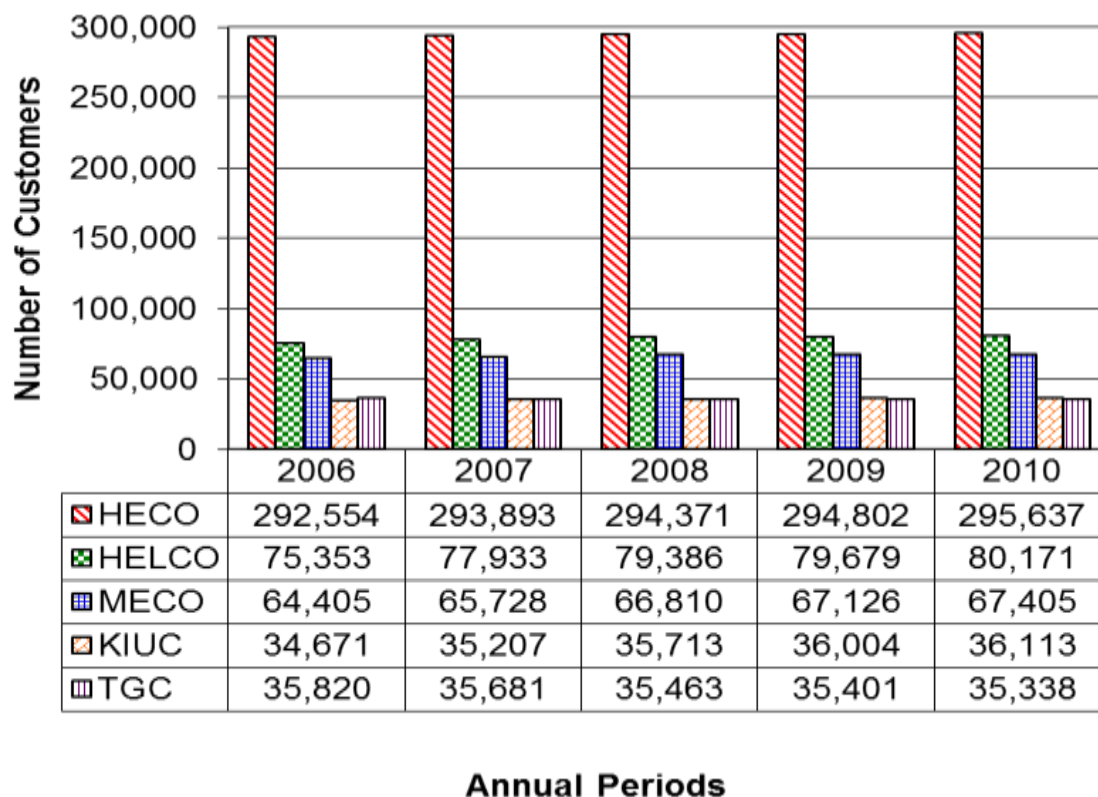
XI. UTILITY COMPANY OPERATIONS, CAPITAL IMPROVEMENTS, AND RATES

A. UTILITY COMPANY OPERATIONS

1. CUSTOMERS SERVED BY UTILITY COMPANIES

The number of customers served by electric and gas utility customers have been fairly stable, with a slight general increase for the electric utility customer numbers during the 2006 - 2010 time period, as shown in Figure 10.⁵

Figure 10
Number of Electric and Gas Utility Customers
2006 - 2010

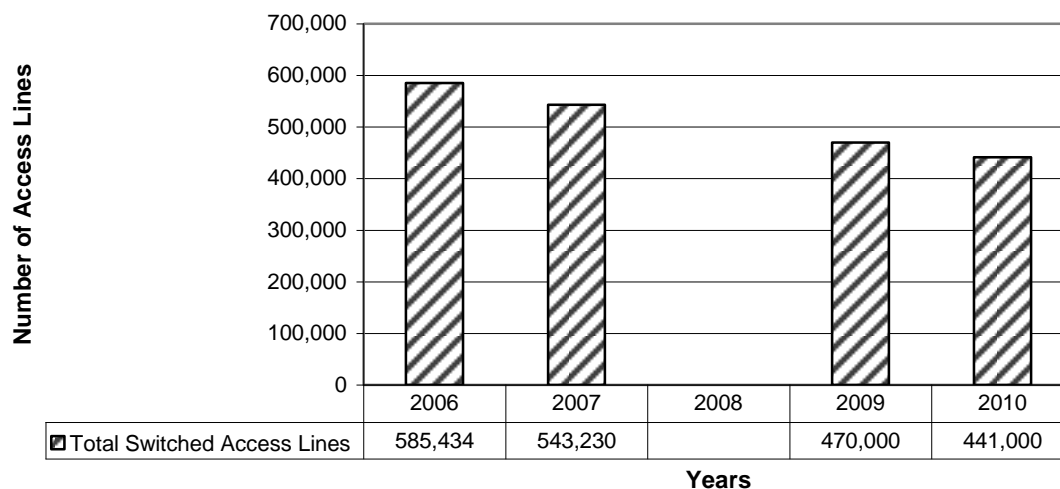


⁵Sources: HECO 2010 Service Reliability Report, MECO 2010 Service Reliability Report, HELCO 2010 Service Reliability Report, KIUC 2010 Service Reliability Report, and TGC 2010 Annual Reports to the PUC.

As shown in Figure 11, Hawaiian Telcom's customer base, as measured by the number of access lines that it serves, after peaking at 743,370 in 2000, has decreased over the past five (5) years.⁶ This decrease is believed to be due primarily to loss of business customers to competitors and increased competition from wireless telecommunications carriers and cable modem service (which does not require telephone lines for dial-up internet access).

Figure 11

**Hawaiian Telcom Total Switched Access Lines
2006-2010**



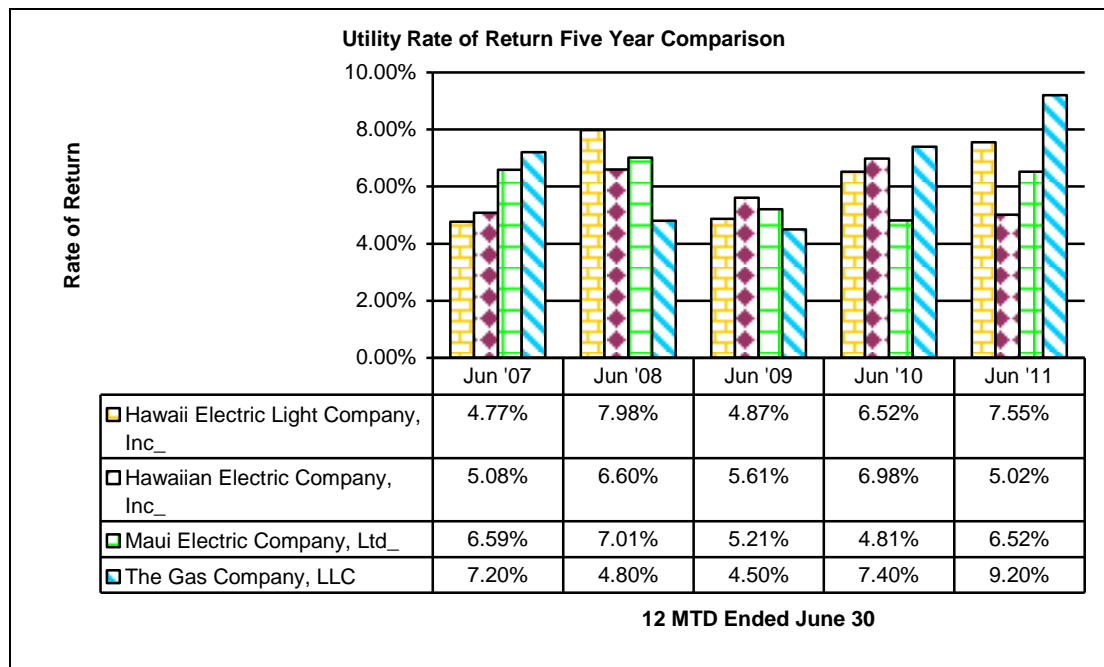
*Note: Due to the Protective Order in Hawaiian Telcom, Inc.'s Chapter 11 Bankruptcy proceeding, the 2008 switched access lines count is not disclosed.

⁶Hawaiian Telcom's ARMIS Operating Data Reports (FCC Report 43-09) for 2006 through 2010.

2. RATES OF RETURN EARNED BY UTILITY COMPANIES

Each regulated utility is entitled to an opportunity to earn a fair rate of return. Figure 12 summarizes the recent history and trends of rates of return earned by the various regulated utilities.

Figure 12



As shown in Figures 13 to 15 for the most part, the utilities have not been earning their authorized rates of return over the past five (5) years. As KIUC converted to times interest earned ratio ("TIER") in 2002, Figure 16 shows KIUC's TIER for the past five (5) years.

Figure 13

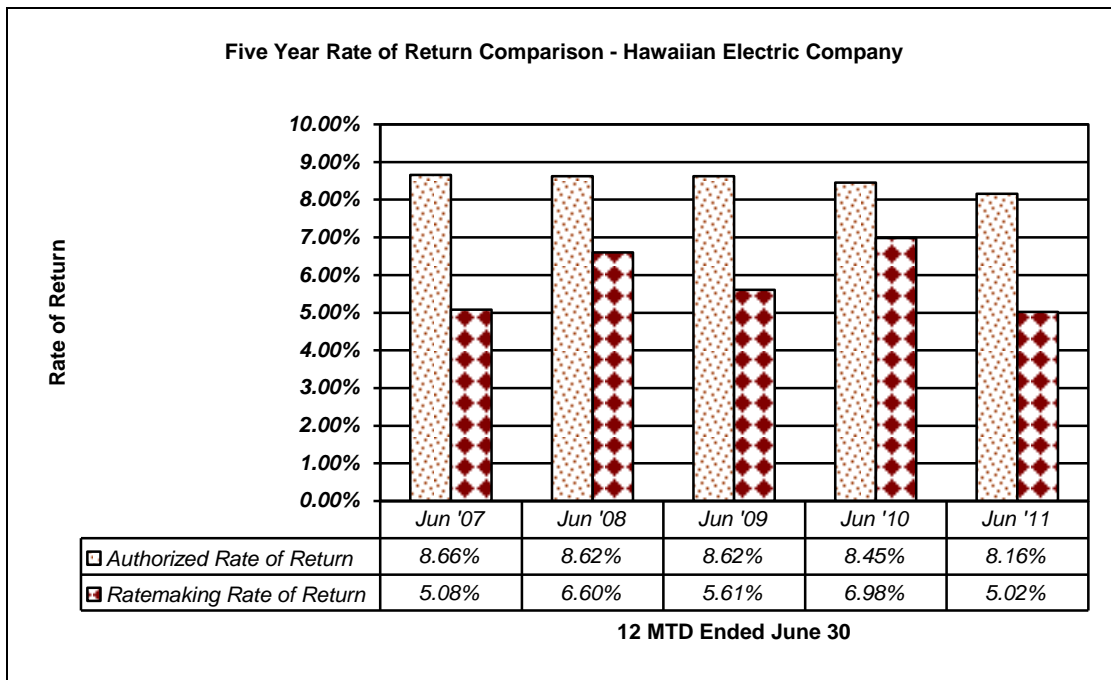


Figure 14

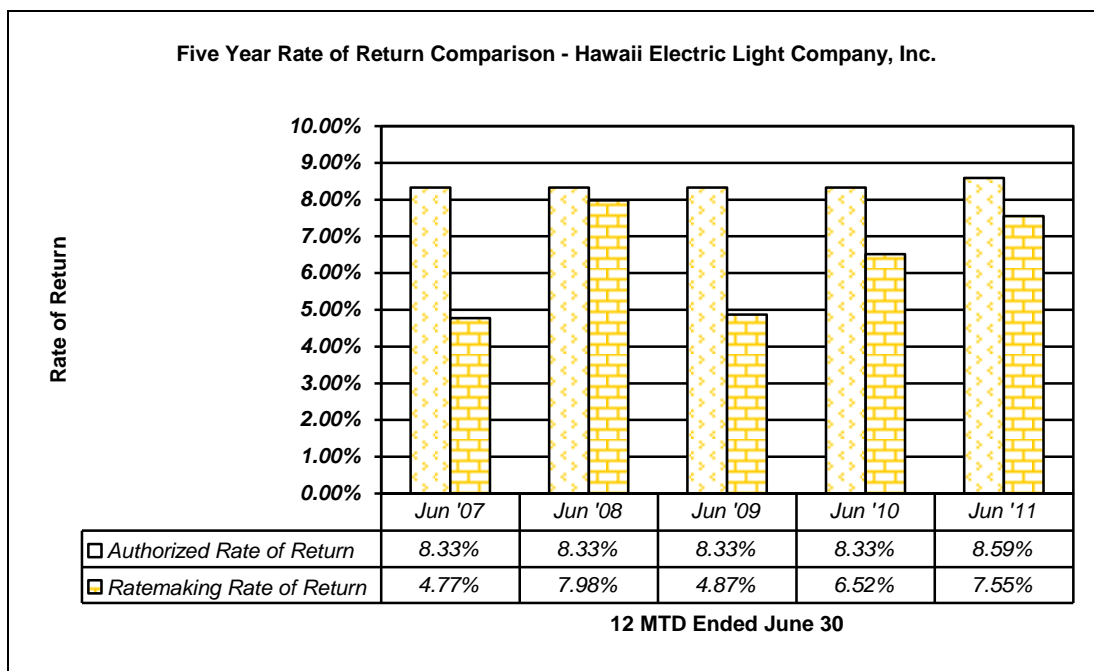


Figure 15

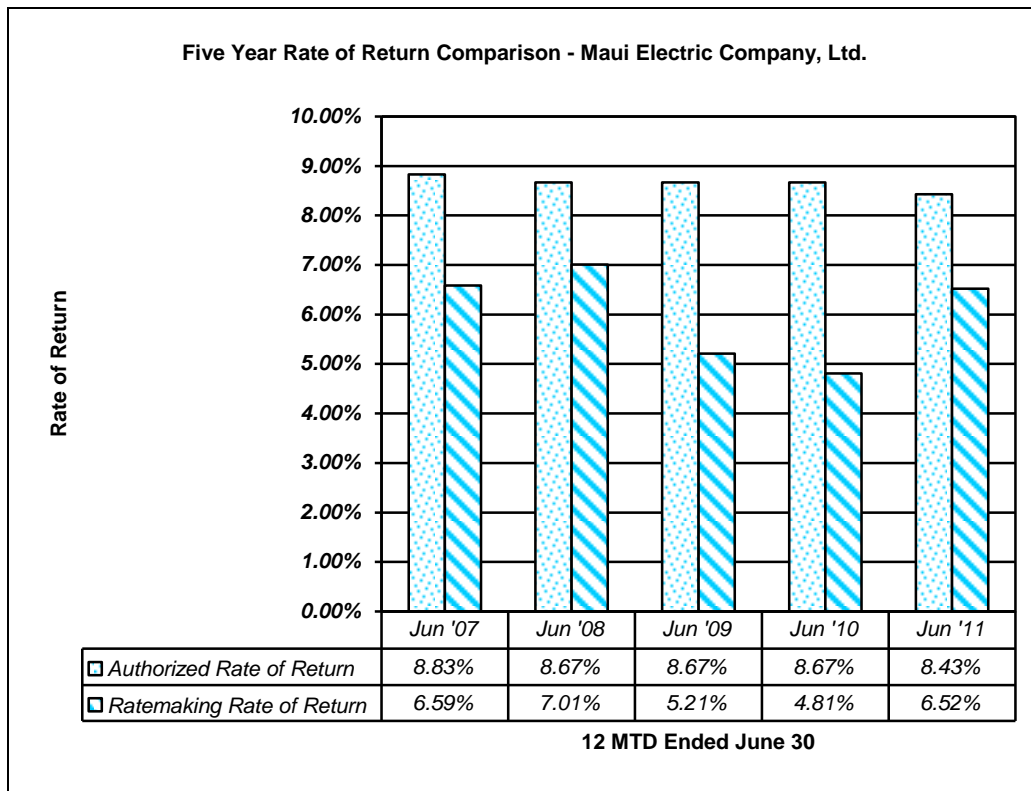


Figure 16

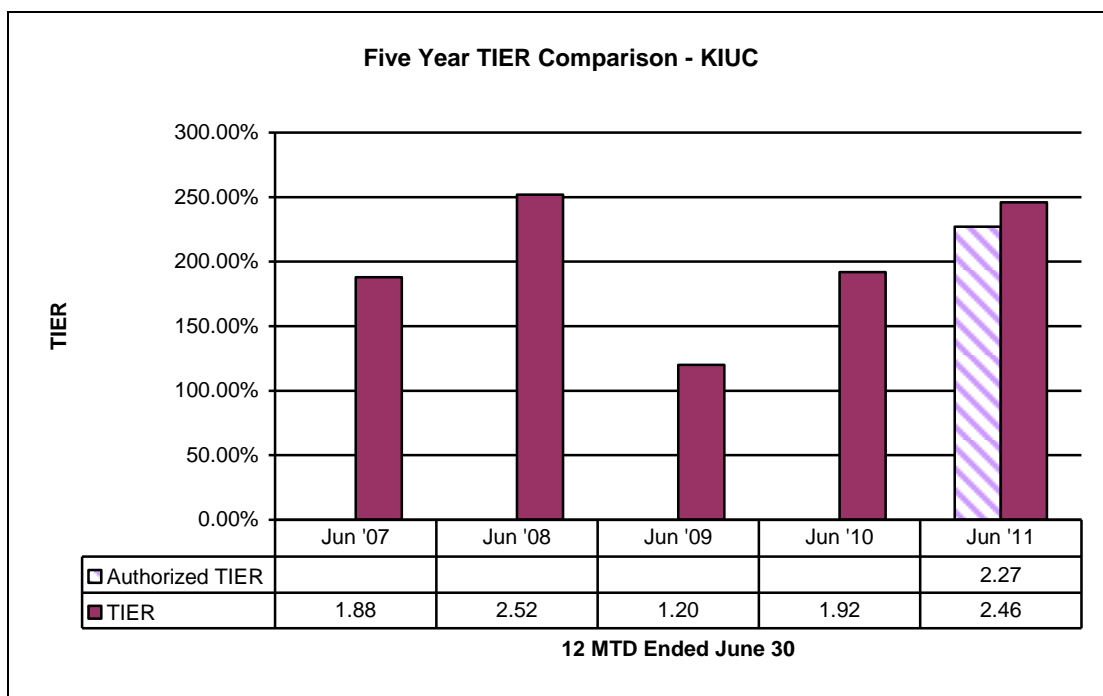
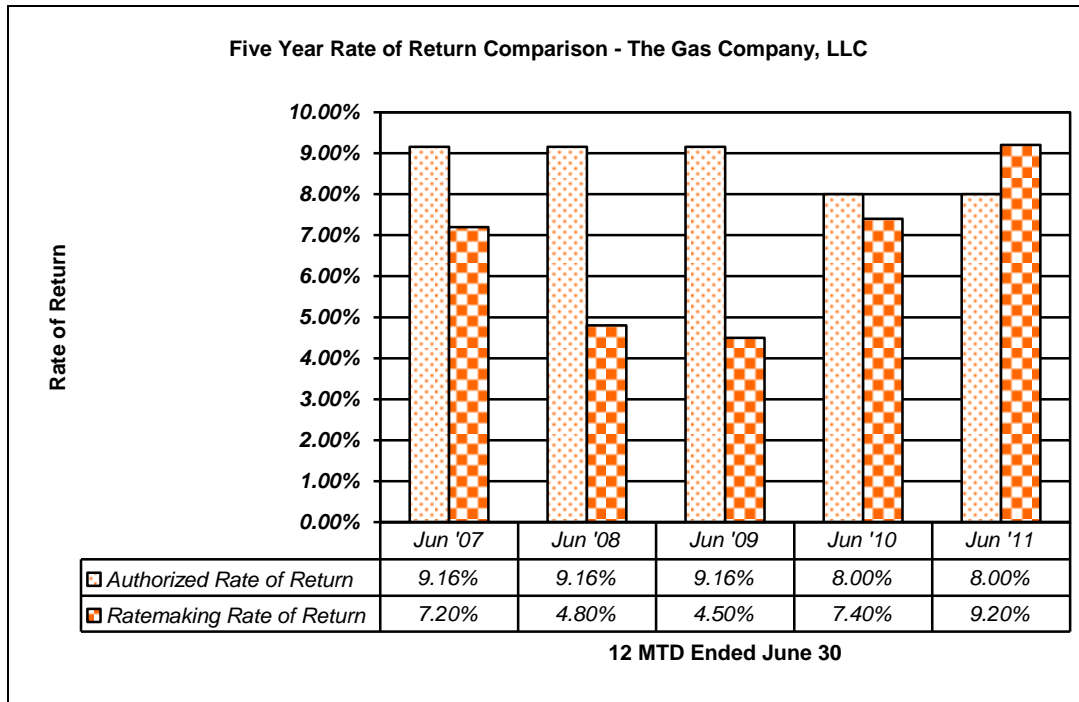


Figure 17



B. FORECASTED CAPITAL IMPROVEMENTS

1. ELECTRIC UTILITY CIPs

The total 2011 capital expenditure budget forecasted for HECO is approximately \$194 million. The Capital Improvement Projects ("CIPs") in HECO's 2011 budget exceeding one million dollars include twenty-four Energy Delivery projects, two Clean Energy projects, and thirteen Power Supply projects.

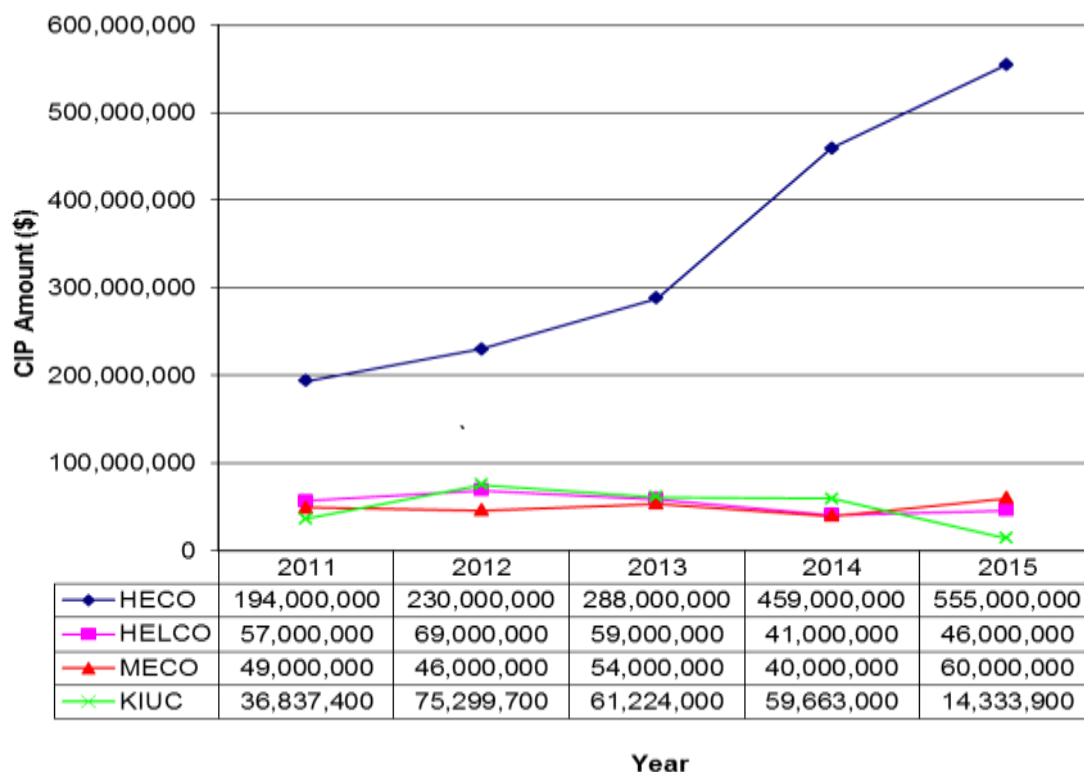
The total 2011 capital expenditure budget forecasted for HELCO is approximately \$57 million. HELCO's more than one million dollars CIPs for 2011 include thirteen Energy Delivery projects, two Clean Energy projects, and two Power Supply projects and one project under "Other" category.

The total 2011 capital expenditure budget forecasted for MECO is approximately \$49 million. The CIPs more than one million dollars in MECO's 2011 budget include ten Energy Delivery projects, three Power Supply projects, and one project under "Other" category.

The total 2011 capital expenditure budget forecasted for KIUC is approximately \$37 million. KIUC's CIP with budget of one million dollars or above for 2011 include eight projects.

Figure 18 shows the five (5)-year capital expenditure budget forecast for HECO, HELCO, MECO, and KIUC.

Figure 18
Electric Utilities Five-Year Capital Expenditures Forecast

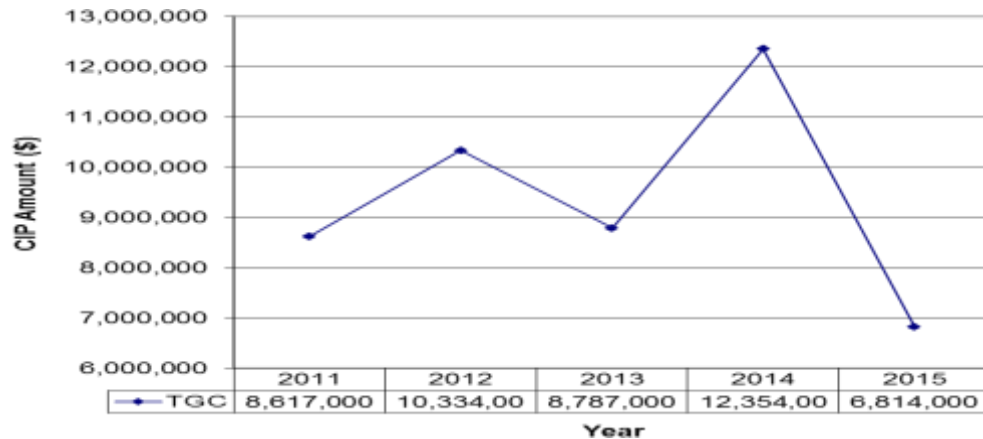


2. GAS CIPs

The total 2011 capital expenditure budget forecasted for TGC is approximately \$8.6 million. The projects in the TGC 2011 budget higher than one million dollars include utility main pipeline renewal, Upgrade 10" trans to 16" at Kapolei, and BIO Oil Refinery on Oahu.

Figure 19 shows the five (5)-year capital expenditure budget forecast for TGC.

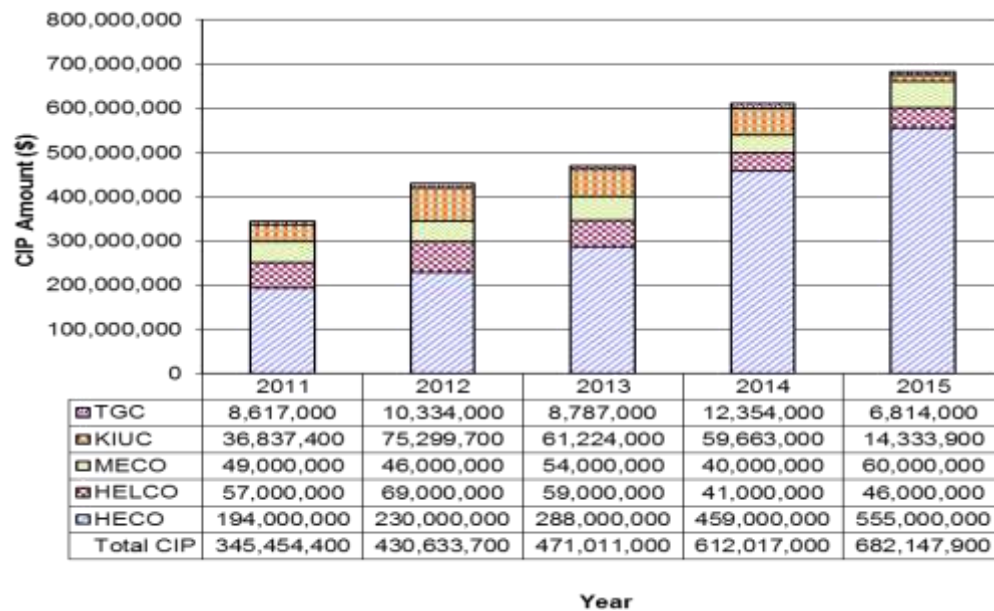
Figure 19
TGC Five-Year Capital Expenditures Forecast



3. FORECASTED UTILITY CIP EXPENDITURES

Figure 20 shows the total five (5)-year capital expenditures forecast for the electric and gas utilities.

Figure 20
Capital Expenditures – Forecasted

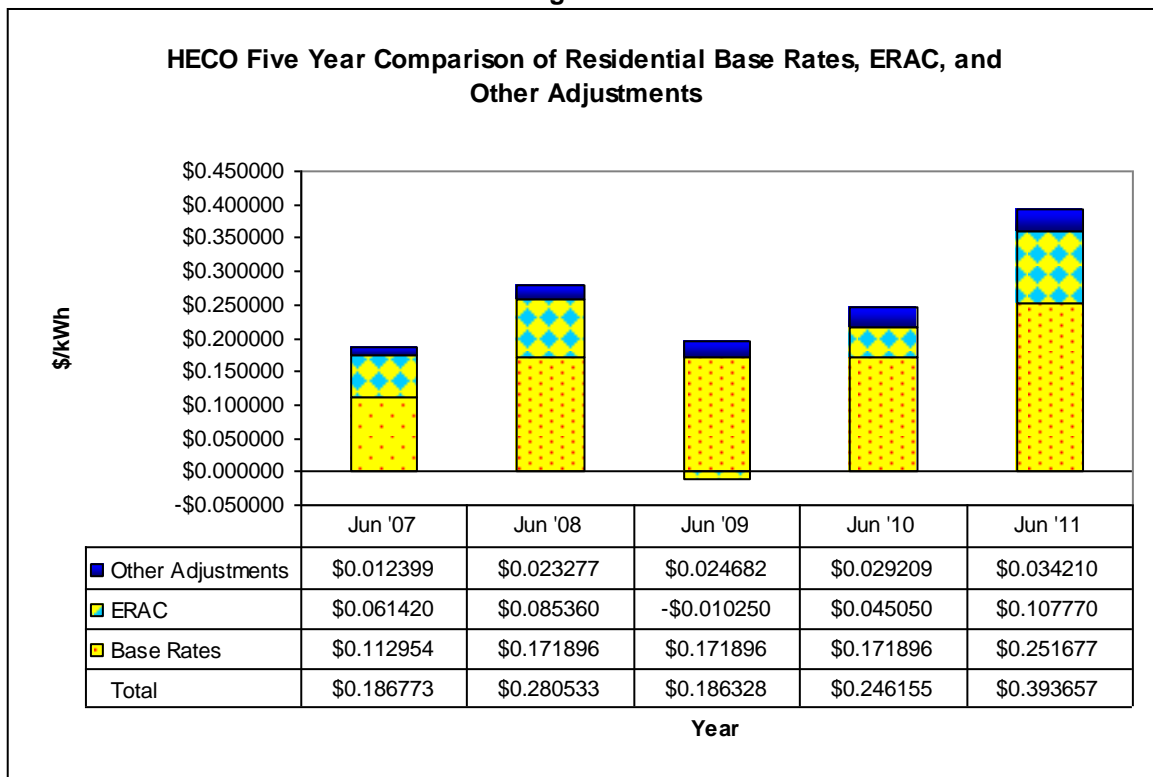


C. RATES OF MAJOR UTILITY COMPANIES

1. ELECTRICITY RATES

In Figures 21 to 26, the electricity rates consist of the base energy rate plus the energy rate adjustment clause ("ERAC") and other adjustments.⁷ The total of the base energy rate and the ERAC is referred to herein as the "Effective Energy Rate."

Figure 21



⁷ERAC (aka fuel adjustment clause) means a provision of a rate schedule approved by the Commission, which provides for increases or decreases, or both, without prior hearing, in rates reflecting changes in costs incurred by an electric or gas utility for fuel or purchased energy due to changes in the unit cost of fuel and purchased energy. See Chapter 6-60, HAR.

Figure 22

**HELCO Five Year Comparison of Residential Base Rates,
ERAC, and Other Adjustments**

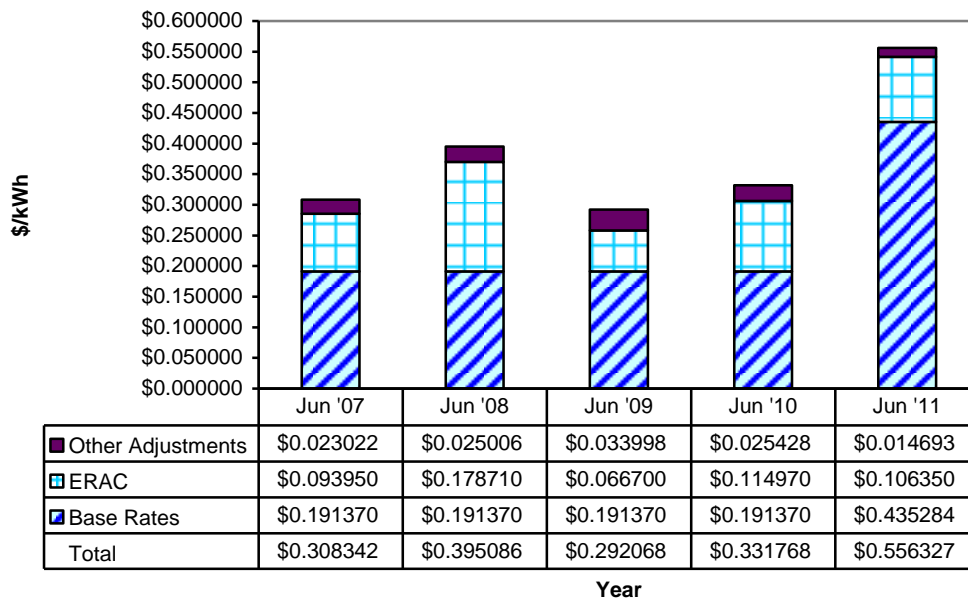


Figure 23

**MECO - Maui Division Five Year Comparison of Residential Base
Rates, ERAC, and Other Adjustments**

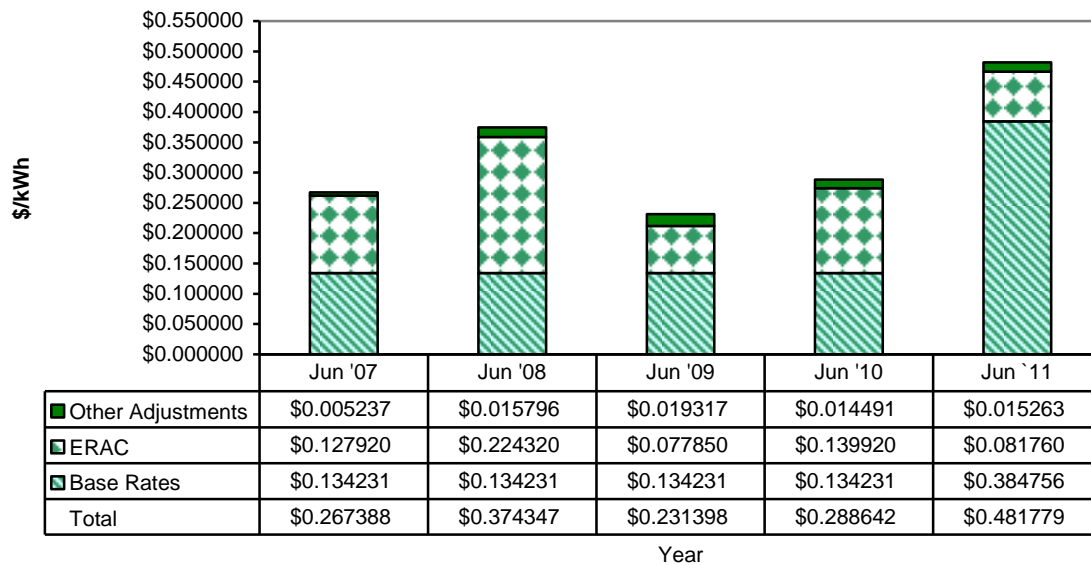


Figure 24

MECO - Lanai Division Five Year Comparison of Residential Base Rates, ERAC, and Other Adjustments

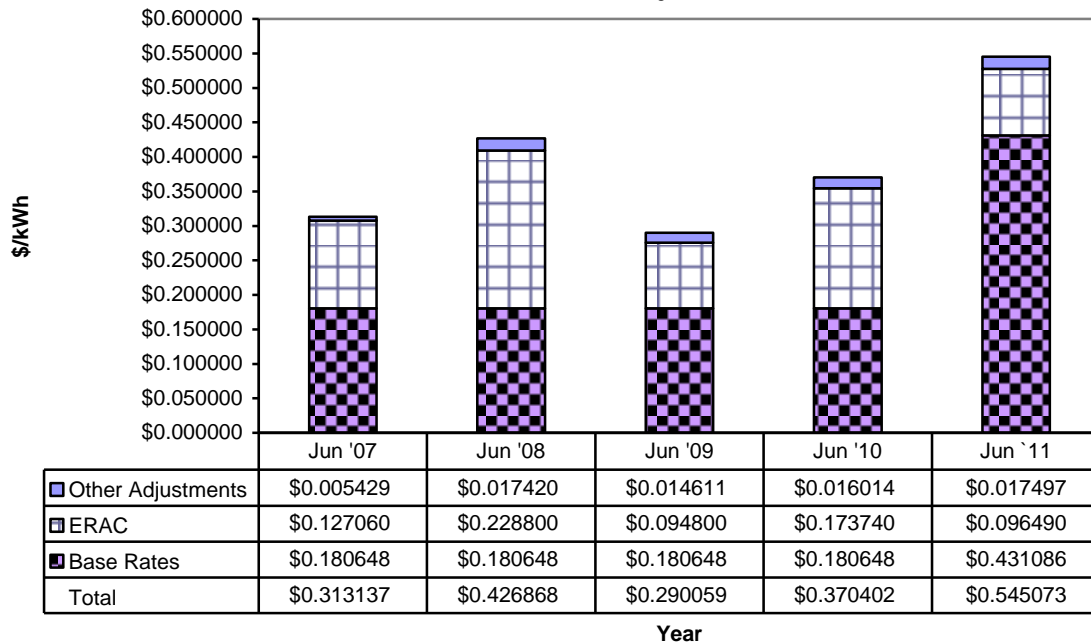


Figure 25

MECO - Molokai Division Five Year Comparison of Residential Base Rates, ERAC, and Other Adjustments

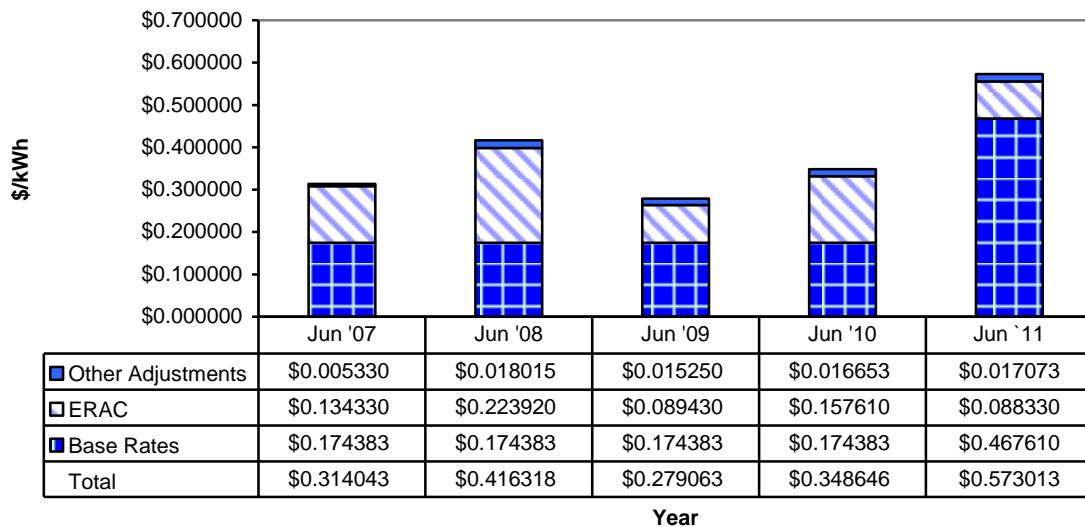


Figure 26

KIUC Five Year Comparison of Residential Base Rate, ERAC, and Other Adjustments

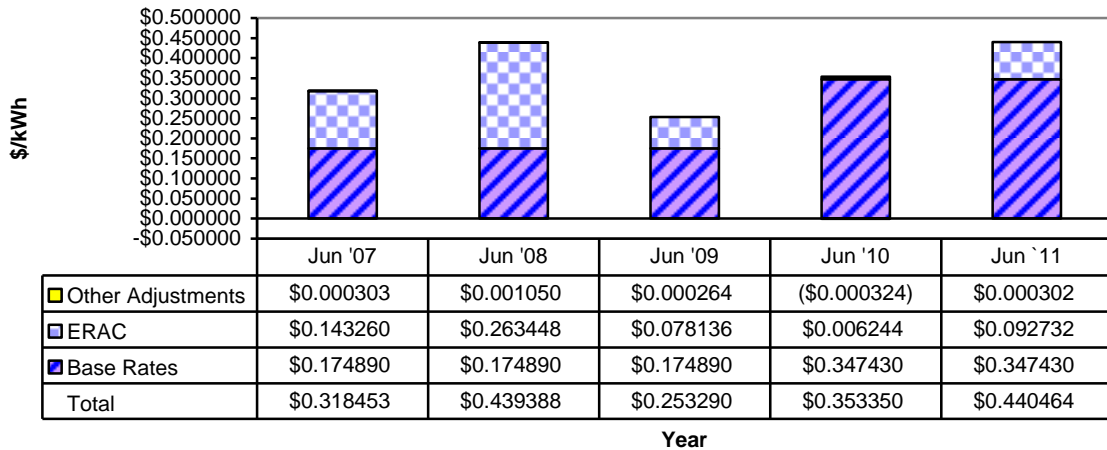


Figure 27 compares Effective Energy Rates (combined base rate and ERAC) for residential electricity customers across the State.

Figure 27

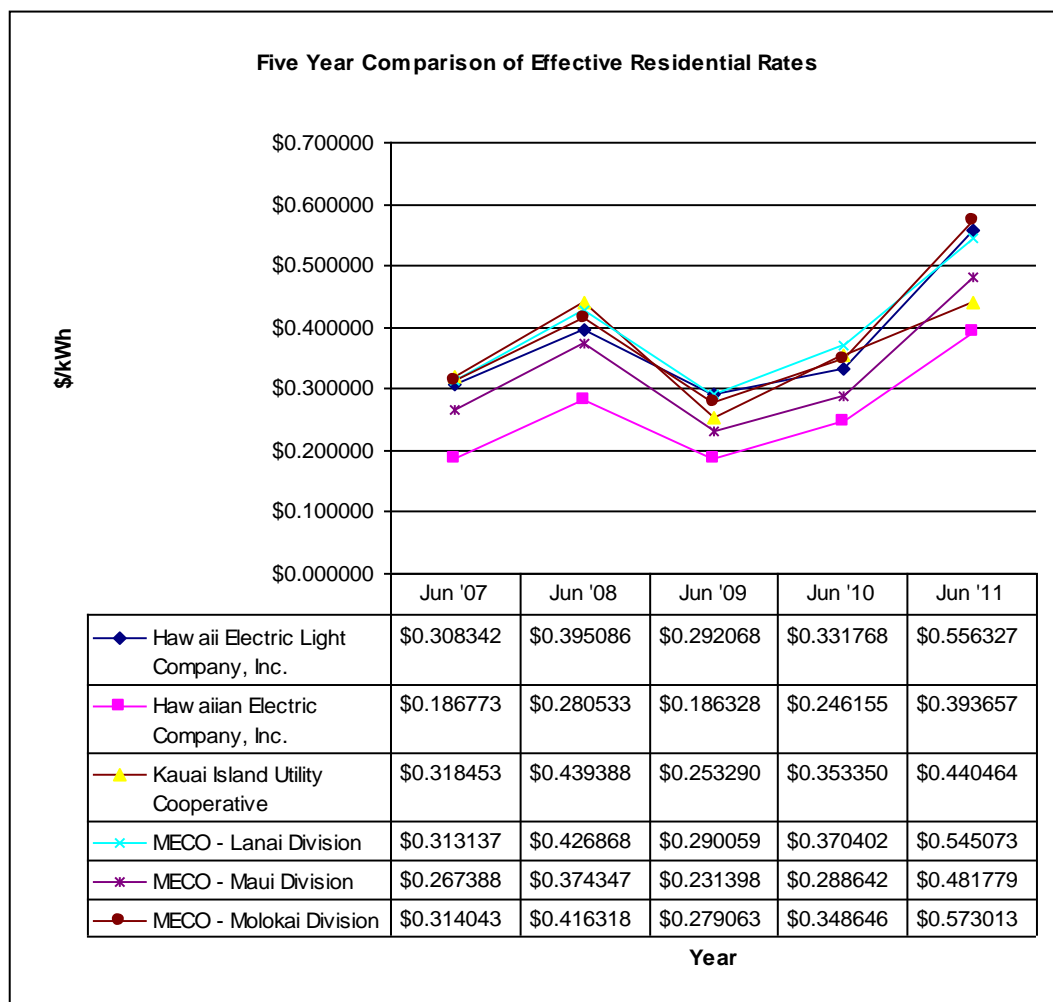


Figure 28 compares monthly residential bills across the State over the past five (5) years, assuming 500 kwh is used by the customer during the month.⁸

Figure 28



⁸The Residential 500 kwh calculation includes the Effective Energy Rate and other charges and adjustments that the utility is authorized to assess (e.g., customer charge, IRP/DSM surcharges, etc. – it varies by company).

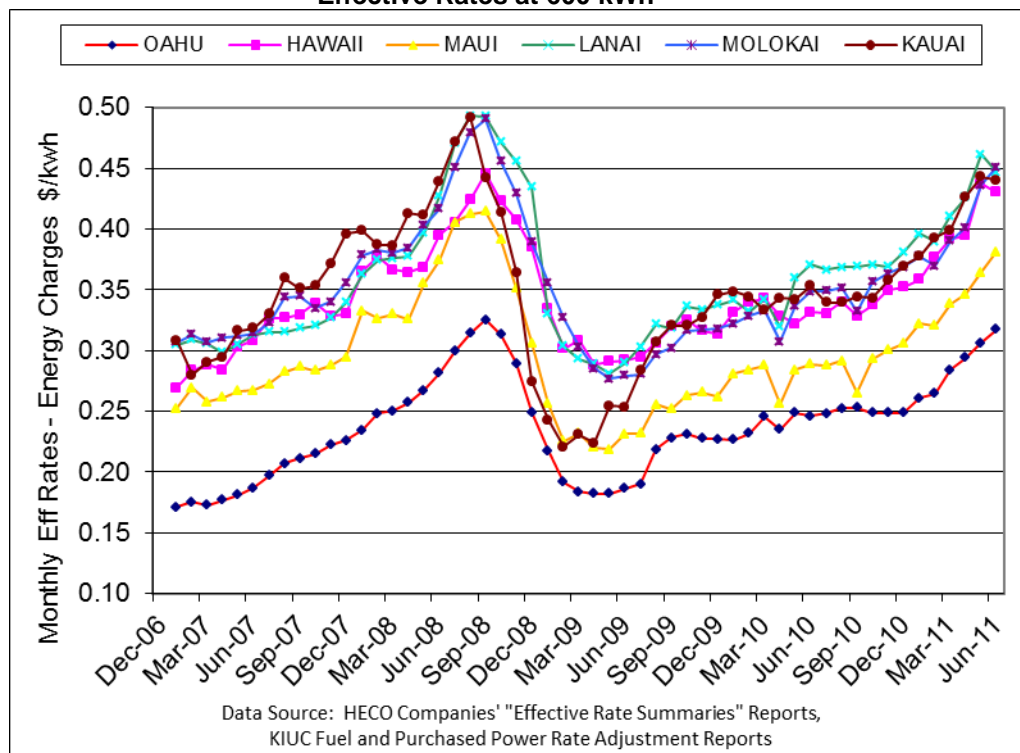
2. ELECTRICITY RATES AND OIL PRICES

The utilities purchase their fuel under a contract and have a certain amount of inventory to protect against any temporary delivery disruptions. HECO generally maintains an average system fuel inventory level equivalent to 47 days of forward consumption. HELCO and MECO generally maintain an average system fuel inventory level equivalent to approximately one month's supply of both MSFO and diesel. The ECAC is based on the cost paid for the fuel used to generate electricity during the billing period, so when prices decrease (or increase) there is about a two month lag before the change is reflected in the ECAC.

Electricity rates also vary depending on the category of customer, such as residential, business (small, medium, and large power users), and commercial as well. For illustrative purposes, the following data and information will summarize residential electricity rates and fluctuations in the price of oil since January 2007.

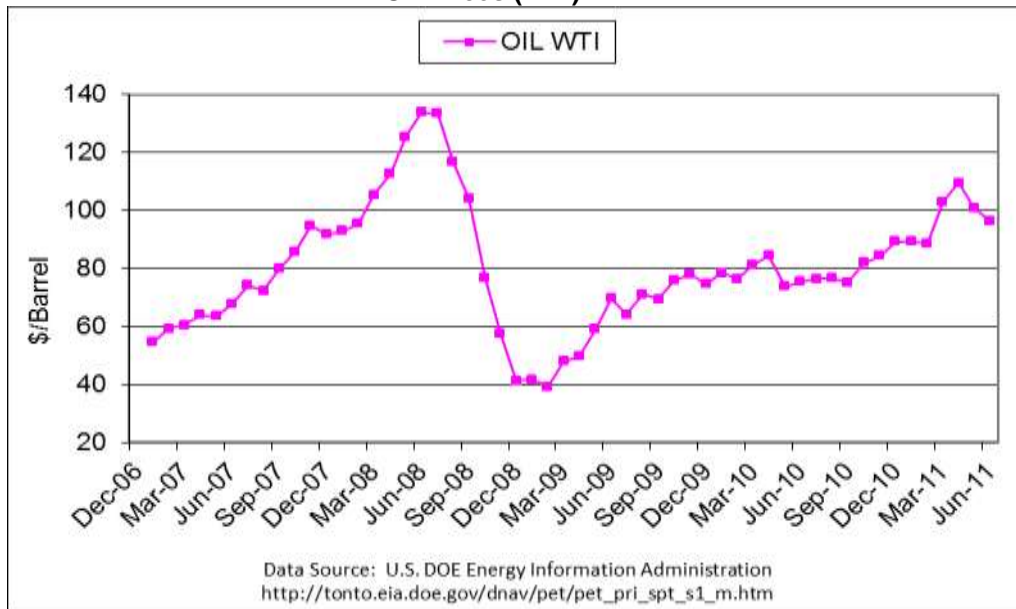
The following chart shows monthly residential effective rates (\$/kilowatt hour) at 600 kWh usage, which vary primarily based on the ECAC changes, for its customers on Oahu, Hawaii (Big Island), Maui, Lanai, Molokai and Kauai. As you can see from this chart, effective electricity rates increased greatly from mid-2007 to mid-2008, and decreased significantly thereafter.

Figure 29
Effective Rates at 600 kWh



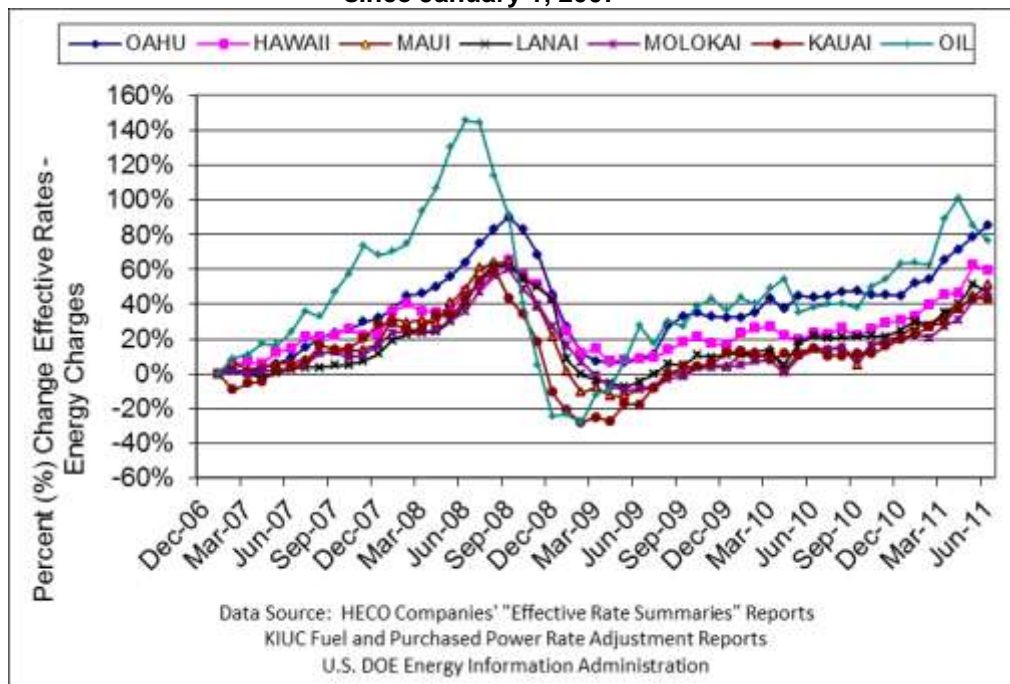
The following chart is a simple graph of crude oil prices during the same time period, which shows similar increases and decreases.

Figure 30
Oil Prices (WTI)



The next chart combines the preceding two charts and shows percentage changes from January 2007.

Figure 31
Effective Rates at 600 kWh and Oil Price Changes
since January 1, 2007



As you can see from this chart, the effective rates for electricity generally correspond with changes in crude oil prices, but there is an approximate 60-day lag due to the use of existing inventories after oil prices may change. Thus, after crude oil prices began declining after July 2008, the effective rates did not start declining until October 2008, and effective rates began to increase again after crude oil prices increased in 2009.

We hope the foregoing has been helpful. We will continue to monitor changes in the price of oil and its effect on electricity rates. However, the data also confirms and illustrates how dependent Hawaii is on world crude oil prices. Although oil prices have retreated from their 2008 summer highs, we will continue to be vulnerable to increases in oil prices until oil-fired electricity generation is substantially replaced with alternative resources.

3. TELECOMMUNICATION RATES

Effective July 15, 2009, Act 180 Session Laws of Hawaii 2009 designated local exchange intrastate telephone services as fully competitive. According to Act 180, "the public utilities commission shall treat the State's local exchange intrastate services, under the commission's classification of services relating to costs, rates, and pricing, as fully competitive and apply all commission rules in accordance with that designation." Under the Act, rates for telephone services do not require commission approval and are filed with the commission for informational purposes as long as the rates are not more than the currently effective tariff.

Hawaiian Telcom's basic rates have remained unchanged over the past several years. the current rates have been in effect since 1995. However, since 1997, with the approval of the Commission, Hawaiian Telcom has assessed an 11.23 percent surcharge on most intrastate services, including basic services. The following table shows residential individual line telephone service by island that customers have been paying since 1997 for residential service.

Island	Residential Rate w/ 11.23% Surcharge	Residential Rate in Tariff
Oahu	\$16.02	\$14.40
Hawaii	\$14.57	\$13.10
Maui	\$13.90	\$12.50
Kauai	\$13.90	\$12.50
Molokai	\$12.07	\$10.85
Lanai	\$11.01	\$9.90

XII. UTILITY COMPANY PERFORMANCE

A. ELECTRIC UTILITIES EFFICIENCY AND SERVICE QUALITY

The following electric utility service quality report was based on or excerpted directly from the 2009 Service Reliability Report submitted to the Commission by HECO, MECO, HELCO, and KIUC. The report covers the 2010 calendar year ("2010"). A complete copy is available for review at the Commission's office or the Commission's website (<http://puc.hawaii.gov/industries/Energy/reports>).

The reliability indices are calculated using the data from all sustained⁹ system outages except customer maintenance outages. If data normalization is required, it is done using the guidelines specified in the report on reliability that was prepared for the Public Utilities Commission, titled "Methodology for Determining Reliability Indices for HECO Utilities," dated December 1990. That report indicates that normalization is allowed for "abnormal" situations such as hurricanes, tsunamis, earthquakes, floods, catastrophic equipment failures, and single outages that cascade into a loss of load greater than 10% of the system peak load. These normalizations are made in calculating the reliability indices because good engineering design takes into account safety, reliability, utility industry standards, and economics, and cannot always plan for catastrophic events.

Indices measure reliability in terms of the overall availability of electrical service (ASA), the frequency or number of times a company customers experience an outage during the year (SAIF), the average length of time an interrupted customer is out of power (CAID), and the average length of time the company's customers are out of power during the year (SAID). SAID is an indication of overall system reliability because it is the product of SAIF and CAID and incorporates the impact of frequency and duration of outages on the company's total customer base.

To determine the relative level of reliability, the statistics for four prior years, 2006 through 2010, are used for comparison.

1. HECO SERVICE QUALITY – NORMALIZED RESULTS

This is the 2010 annual service reliability report of the Hawaiian Electric Company (HECO). The average number of electric customers increased from 294,802 in 2009 to 295,637 in 2010 (a 0.28% increase). The 2010 peak demand for the system was 1,200 MW (evening peak) this is 60 MW lower than the peak in 2009; however, the highest system peak demand remains at 1,327 MW set on the evening of October 12, 2004.

Annual Service Reliability Indices

The annual service reliability for 2010 was the second best in the past 5 years in terms System Average Interruption Frequency Index (SAIFI). The reliability results for 2010 and four prior years are shown Table below: Annual Service Reliability Indices – All Events, and Table: Annual Service Reliability Indices – with Normalizations. No outage events were normalized in 2010. All subsequent comparisons and discussion are based on the normalized data.

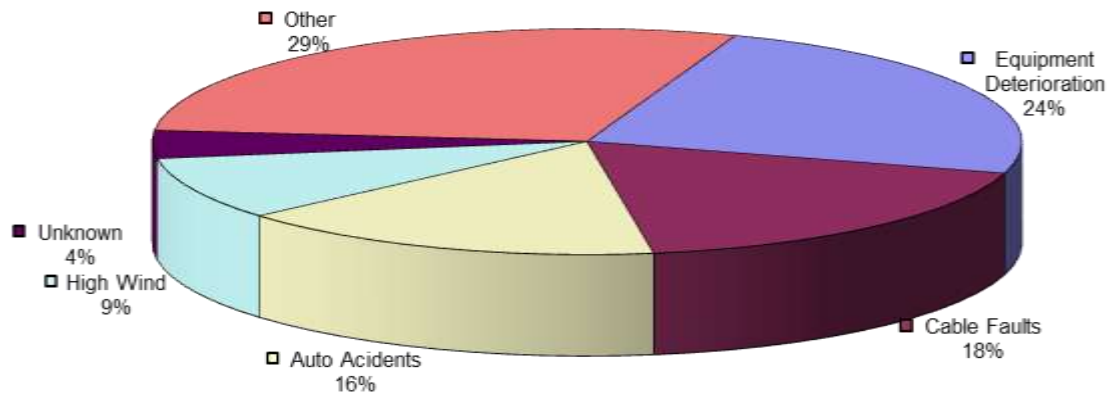
⁹An interruption of electrical service of 1 minute or longer.

Table of Annual Service Reliability Indices – All Events					
	<u>2006*</u>	<u>2007**</u>	<u>2008***</u>	<u>2009</u>	<u>2010</u>
Number of Customers	292,554	293,893	294,371	294,802	295,637
Customer Interruptions	724,280	639,886	729,784	333,908	361,334
Customer-Hours Interrupted	4,260,045	1,970,925	3,985,756	442,546	564,424
SAID (Minutes)	873.69	402.38	812.39	90.08	114.55
SAIF (Occurrences)	2.476	2.177	2.479	1.133	1.222
CAID (Minutes)	352.91	184.81	327.69	79.52	93.72
ASA (Percent)	99.834	99.923	99.846	99.983	99.978

Table of Annual Service Reliability Indices – with Normalization					
	<u>2006*</u>	<u>2007**</u>	<u>2008***</u>	<u>2009</u>	<u>2010</u>
Number of Customers	292,554	293,892	294,371	294,802	295,637
Customer Interruptions	420,749	367,837	382,124	333,908	361,334
Customer-Hours Interrupted	666,188	488,144	490,842	442,546	564,424
SAID (Minutes)	136.63	99.66	100.05	90.08	114.55
SAIF (Occurrences)	1.438	1.252	1.298	1.133	1.222
CAID (Minutes)	95.00	79.62	77.07	79.52	93.72
ASA (Percent)	99.974	99.981	99.981	99.983	99.978

NOTE: 2006* Data normalized to exclude the 6/01/06 Load Shedding Outage
Data normalized to exclude the 10/15/06 Earthquake Outage
2007** Data normalized to exclude the 1/29/07 and 02/02/07 High Wind Outages
Data normalized to exclude the 11/04/07 - 11/05/07 and 12/04/07 - 12/06/07 Storms
2008*** Data normalized to exclude the 12/10/08 - 12/14/08 High Wind Outages
Data normalized to exclude the 12/26/08 Island Wide Blackout

Figure 32
HECO Outage Causes



The Top 5 Outage Causes, by number of customers affected, as illustrated in Figure 32, equates to about 71% of the total Customer Interruptions in 2010; these causes are:

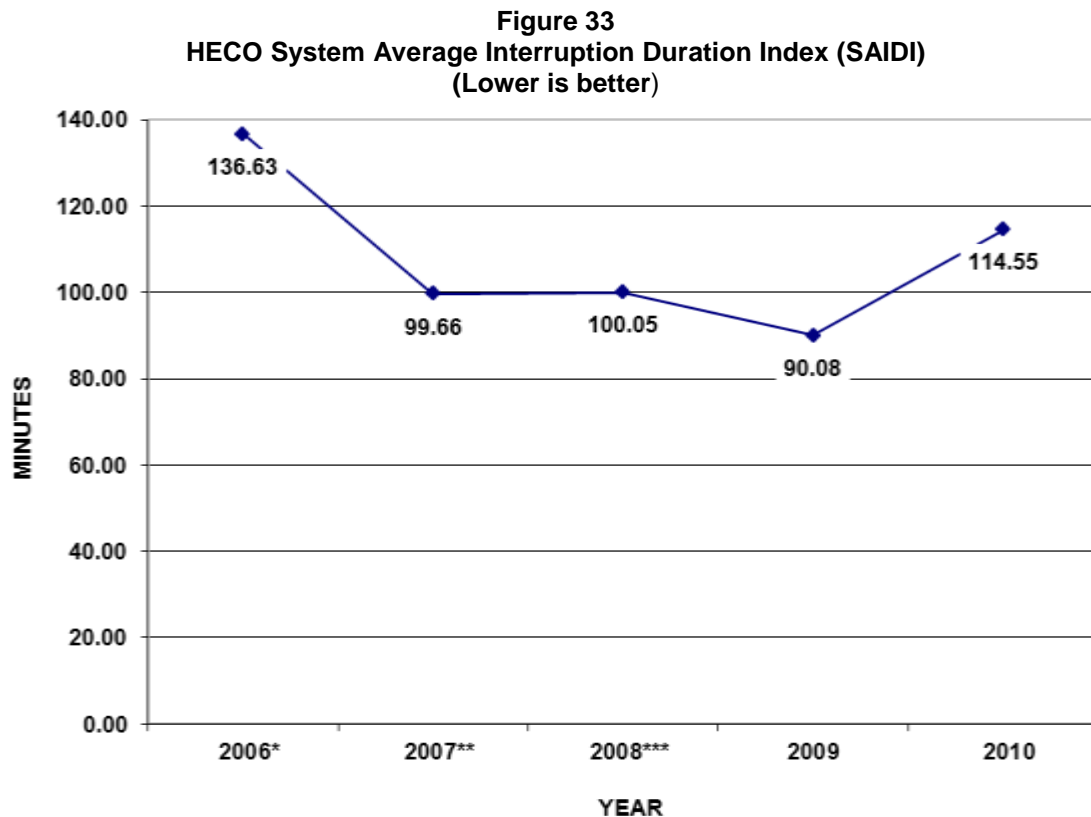
<u>Outage Category</u>	<u>Sample Causes</u>
1. Equipment Deterioration	failed, broken, corroded equipment,
2. Cable Faults	underground equipment failures,
3. Auto Accidents	car, truck and bus accidents,
4. High Wind	objects blown into lines, conductor swing shorts,
5. Unknown	unidentified outage causes.

All of these were also major cause factors in 2009 with the exception of “High Wind” which replaced “Trees/Branches in Line” as a top contributor.

The total number of customer interruptions in 2010 was 361,334 and in the prior year 2009 there were 333,908 interruptions. In the five year period this was the second best performing year for the fewest number of interruptions. The results show that the number of Customer Interruptions due to “Equipment Deterioration” went up from 79,629 in 2009 to 86,108 in 2010, an increase of 8%. The number of Customer Interruptions due to “Auto Accidents” decreased from 35,194 in 2009 to 26,596 in 2010, an improvement of 24%. The number of Customer Interruptions due to “Cable Faults” increased from 63,868 in 2009 to 74,790 in 2010, an increase of 17%. Although the customer interruptions due to “Cable Faults” increased, the percentage of cable faults versus all interruptions remained about the same as in 2009. The increase in outages due to “High Winds” increased by over 300% from 7,433 in 2009 to 30,532 in 2010. In 2010 the following high wind periods contributed to the large increase in the number of outages. High wind events on December 9th -10th amounted to 13,348 interruptions and events on April 29th -31st amounted to 6,928 interruptions.

There were no sustained interruptions affecting 10,000 or more customers during 2010 similar to that of 2009.

The outages and transformer fire that occurred during the heavy rains on December 19th and 20th affecting Ala Moana Shopping Center, nearby businesses and customers gained much media attention. The effect, however, on the reliability statistics for 2010 was relatively insignificant. The outages, in all, impacted about 2000 customers, or 0.6% of the customer interruptions for 2010. The impact to the CAIDI, SAIDI and SAIFI was 13 seconds, 35.4 seconds and 0.003, respectively.



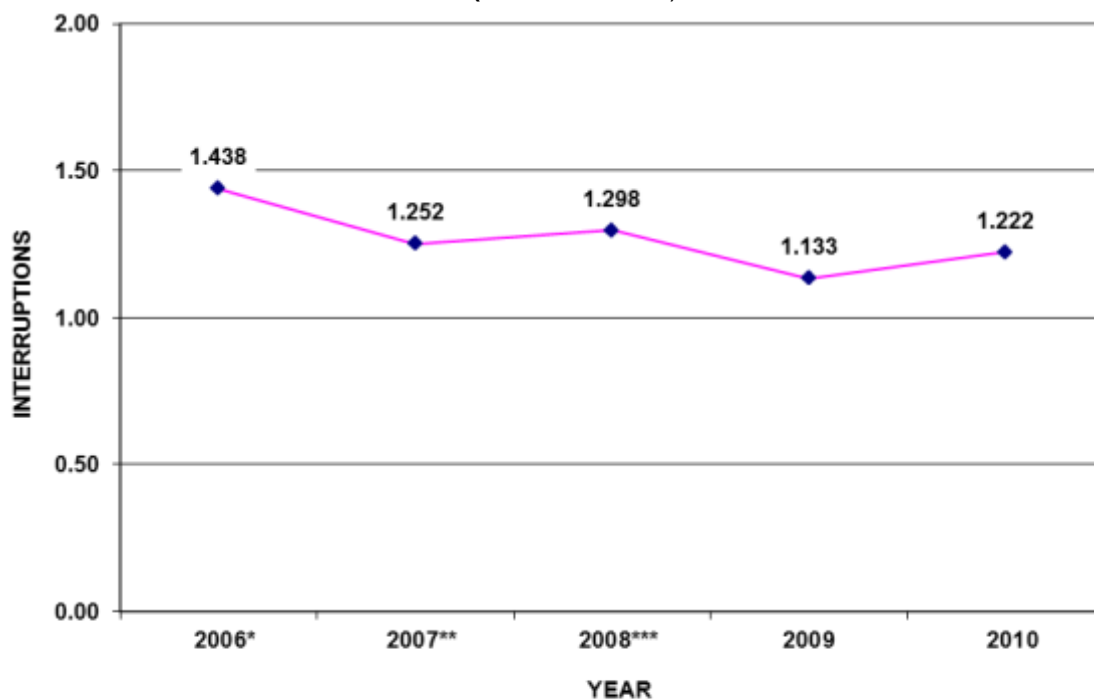
*Data normalized to exclude 6/01/06 Load Shedding Outage, 10/15/06 Earthquake Outage

**Data normalized to exclude 1/29/07 and 2/2/07 High Wind, 11/4-5/07 and 12/4-6/07 Storm Outages

***Data normalized to exclude 12/10-14/08 High Wind Outages, and 12/26/08 Island Wide Blackout

Figure 33 shows the System Average Interruption Duration (SAIDI) indices for the past five years. It shows that the 2010 SAIDI is 114.55 minutes, a 27% increase as compared to the 2009 SAIDI results. The SAIDI is the composite of both the SAIFI and CAIDI indices and produces a broader benchmark of system reliability by combining both the duration and the number of customer interruptions during a given period of time. The increase of the SAIDI result was due to the increase in both the CAIDI and SAIFI statistics.

Figure 34
HECO System Average Interruption Frequency (SAIFI)
(Lower is better)



*Data normalized to exclude 6/01/06 Load Shedding Outage, 10/15/06 Earthquake Outage

**Data normalized to exclude 1/29/07 and 2/2/07 High Wind, 11/4-5/07 and 12/4-6/07 Storm Outages

***Data normalized to exclude 12/10-14/08 High Wind Outages, and 12/26/08 Island Wide Blackout

Figure 34 shows the System Average Interruption Frequency Index (SAIFI) for the past five years. It shows that the 2010 SAIFI of 1.222 was the second lowest index in the past five years, increasing from the 30 year low of 1.133 in 2009.

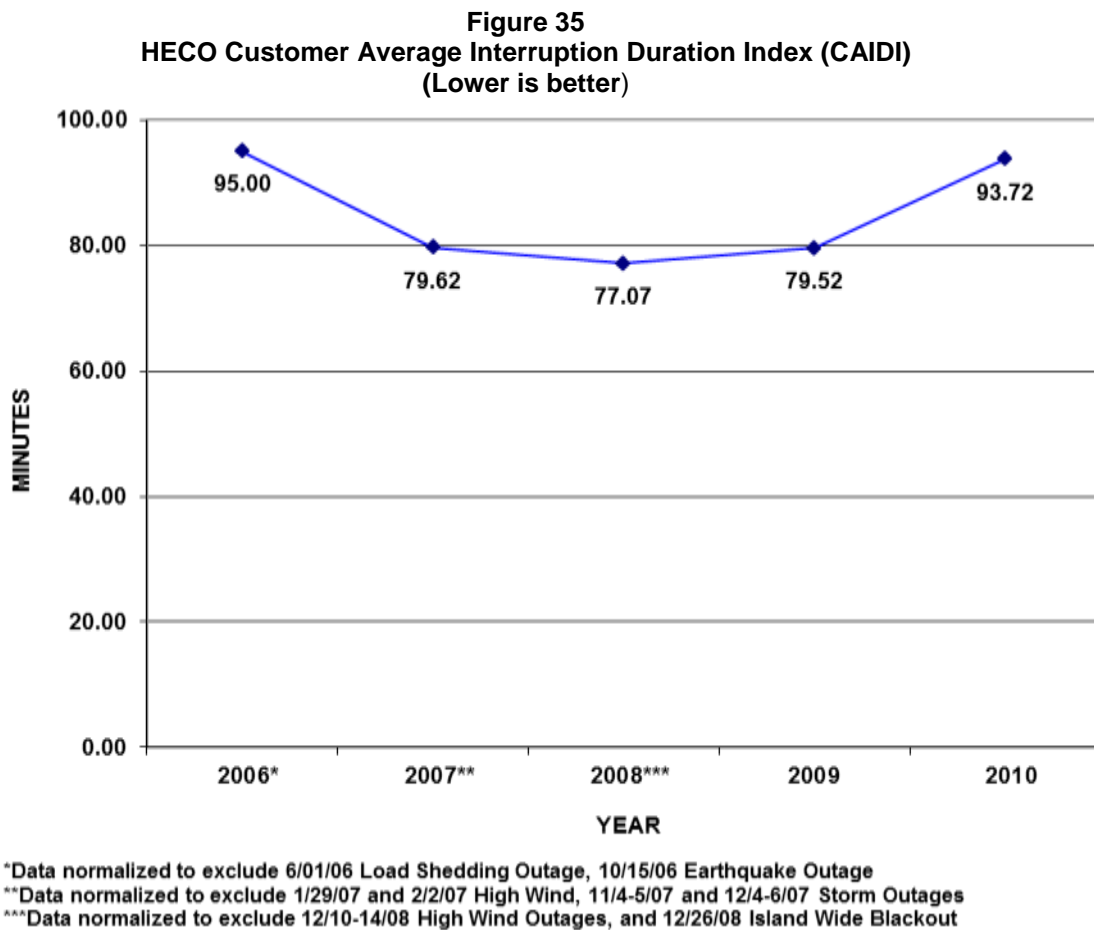


Figure 35 shows that the average duration of a customer's outage (CAIDI) for 2010 significantly increased and in the five year period was approaching the results of 2006, which was the worst of the five years from 2006 to 2010. The average electrical outage duration (CAIDI) for 2010 was 93.72 minutes, an increase over the 2009 results of 79.52 minutes. Automobile accidents greatly affected the CAIDI results for 2010. Foregoing the six events listed below would have reduced the 2010 annual CAIDI by nearly 7 minutes.

Six major events affected the CAIDI results in 2010:

January 6, 2010 – An auto accident at the intersection of Lanikuhana Ave and Meheula Pkwy. caused outages in the Mililani area affecting 2,309 customers from 52 minutes to 5 hours and 31 minutes.

February 10, 2010 – An auto accident on School St. caused outages in the Kalihi area affecting 1,386 customers from 36 minutes to 10 hours and 13 minutes.

April 11, 2010 – An auto accident on Farrington Hwy. caused outages in the Waialua area affecting 3,085 customers from 2 hours and 59 minutes to 14 hours and 22 minutes.

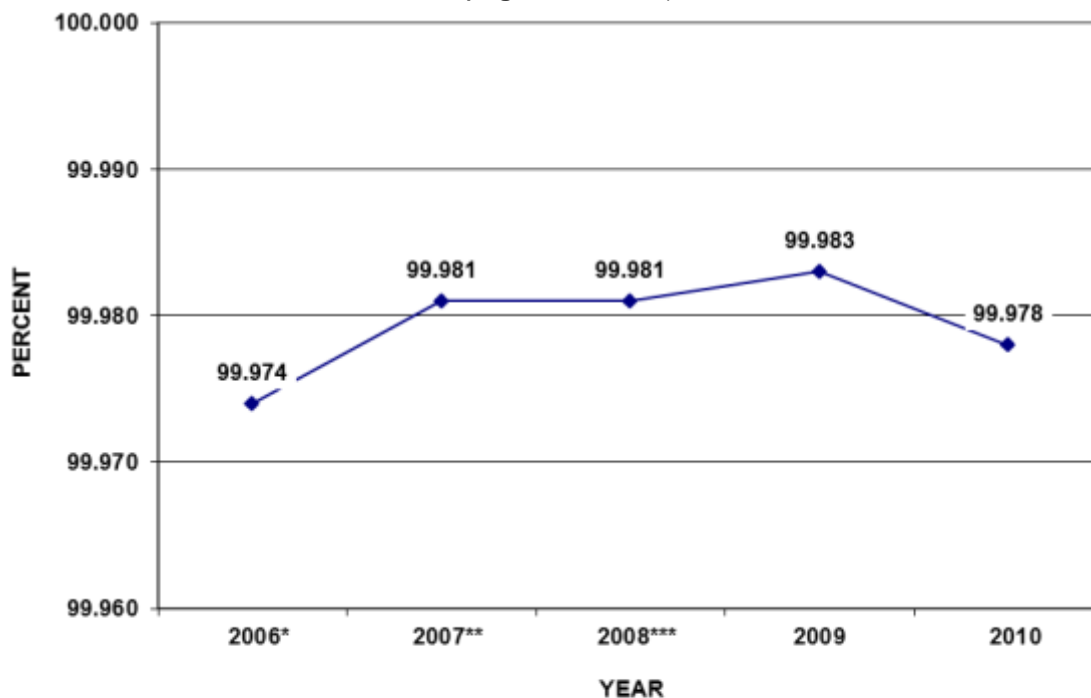
September 28, 2010 – An auto accident on California Ave. caused outages in the Wahiawa area affecting 1,947 customers for 1 hour and 7 minutes to 9 hours and 41 minutes.

October 17, 2010 – An auto accident on Kukuna Rd. caused outages in the Hauula area affecting 1,342 customers for 1 hour and 30 minutes to 22 hours and 1 minute.

November 28, 2010 – An auto accident at Hele St caused outages in the Kailua area affecting about 1,912 customers from 1 hour and 23 minutes to 12 hours and 40 minutes.

Outages caused by automobile accidents generally incur damage to poles or equipment that require replacement before power can be restored to customers. In some cases the accident scene can be isolated; restoring most customers, however there will often be a few customers who experience extended outage durations. Nonetheless, automobile accidents, because of the damage that is inflicted on the system, generally result in lengthy outage times for customers.

Figure 36
HECO Average Service Availability (ASA)
(Higher is better)



*Data normalized to exclude 6/01/06 Load Shedding Outage, 10/15/06 Earthquake Outage

**Data normalized to exclude 1/29/07 and 2/2/07 High Wind, 11/4-5/07 and 12/4-6/07 Storm Outages

***Data normalized to exclude 12/10-14/08 High Wind Outages, and 12/26/08 Island Wide Blackout

Figure 36 shows that the 2010 ASAI index decreased when compared to the 2009 results after a period of growth (higher is better) from 2006 to 2009. Approximately 27,343 more customers experienced sustained service interruptions during 2010 compared to the previous year, an increase of 8.2% that caused the ASAI to decrease from 99.983% to 99.978%.

2. MECO SERVICE QUALITY – NORMALIZED RESULTS

The following MECO electric utility service quality discussion is based on or excerpted directly from the MECO Annual Service Reliability Report 2010 submitted to the Commission by MECO. The report covers the 2010 calendar year. A complete copy is available for review at the Commission's office.

The average number of electric customers increased from 67,126 in 2009 to 67,405 in 2010 (an increase of 0.42%). The peak 2010 demand for the system was 203.8 MW (gross) that occurred on December 28, 2010. The peak 2010 demand was lower than the 2009 peak demand of 204.3 MW (gross) on October 21, 2009 (a decrease of -0.24%).

This analysis of the system reliability for MECO is for the year 2010. To determine the relative level of reliability, the statistics for five prior years, 2005 through 2009, are used for comparison.

The reliability indices are calculated using the data from all sustained system outages, except customer maintenance outages. The data used for the 2005 reliability indices was not normalized due to the lack of system events that would qualify certain data to be normalized. The data used for calculating the reliability indices for 2006, 2007, 2008 and 2009 was normalized.

There were 764 outages in 2006. The data used for the 2006 reliability indices for MECO was normalized to exclude the following event:

- October 15 - Earthquake

There were 693 outages in 2007. The data used for the 2007 reliability indices for MECO was normalized to exclude the following events:

- January 29 – Kona Storm
- December 5 - Kona Storm

There were 707 outages in 2008. The data used for the 2008 reliability indices for MECO was normalized to exclude the following events:

- Storms on Maui, Molokai and Lanai
- Various equipment failures and faults

There were 880 outages in 2009. The data used for the 2009 reliability indices for MECO was normalized to exclude the following events:

- January 16 – High Winds
- June 19 – High Winds
- Various equipment failures and faults

2010 NORMALIZED RESULTS

The 2010 service reliability results were normalized to exclude the effects of various catastrophic equipment failures and large storms on Maui, Molokai and Lanai. There were 868 outages in 2010 and 81 of these outages in 2010 were classified as "abnormal" situations (i.e., catastrophic equipment failures and major storms) that cascaded into a loss of load greater than 10% of the system peak load.

The data used for the 2010 reliability indices for MECO was normalized to exclude the following events:

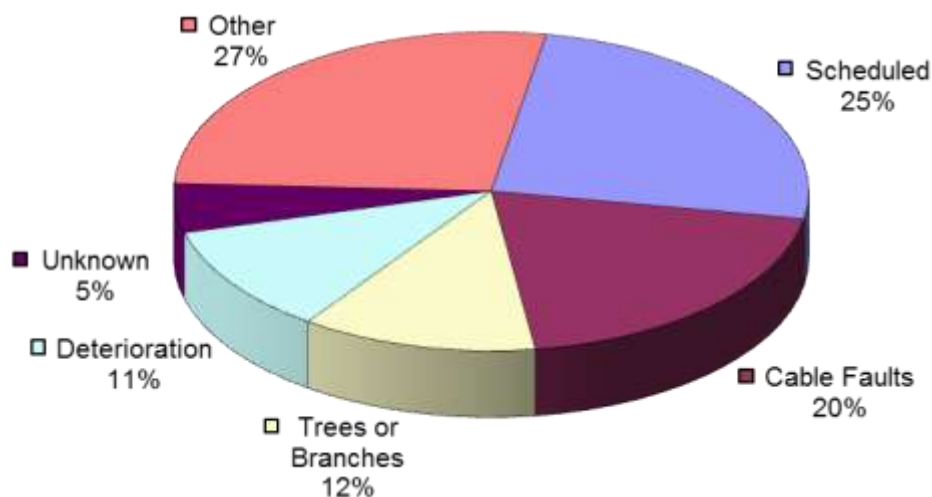
- March 28, 29, 30 & 31 – High Winds
- April 1 & 4 – High Winds
- December 9 & 10 – Kona Storm
- Various equipment failures and faults

The 2010 service reliability results (normalized) indicate that MECO did make improvements in the ASA, SAIFI, CAIDI and SAIDI indices compared to 2009.

- The ASA index of 99.9898% is an increase from 2009 and is ranked the highest ASA index of the last six years. (Higher is better.)
- The SAIFI index of 1.001 is a decrease from 2009 and is ranked the lowest SAIFI index of the last six years. (Lower is better.)
- The CAIDI index of 53.35 minutes is a decrease from 2009 and is ranked the second lowest CAIDI index of the last six years. (Lower is better.)
- The 2009 SAIDI index of 53.41 minutes is a decrease from 2009 and is ranked the lowest SAIDI index of the last six years. (Lower is better.)

MECO 2010 OUTAGE CAUSES

Figure 37



Scheduled outages were the leading cause of outages in 2010, with 170 outages, which accounted for 25.22% of all outages. This was an increase of 9.68% from 2009. Outages caused by cable faults were the second leading cause of outages in 2010, with 136 outages and accounted for 20.18% of all outages. This was a decrease of 4.23% from 2009.

MECO experienced 24 load shed events in 2010. Maui experienced 8 load shed events, Molokai experienced 8 load shed events and Lanai experienced 8 load shed events in 2010.

Annual Service Reliability Indices

The normalized results for 2009, the previous un-normalized indices for 2005 and the normalized indices for 2004, 2006, 2007 and 2008 are shown in the table "Annual Service Reliability Indices".

<p style="text-align: center;"><u>MECO</u></p> <p style="text-align: center;"><u>Table of Annual Service Reliability Indices</u></p>						
SYSTEM TOTALS	<u>2005</u>	<u>2006</u> *	<u>2007</u> *	<u>2008</u> *	<u>2009</u> *	<u>2010</u> *
Number of Customers	63,103	64,405	65,728	66,810	67,126	67,405
Customer Hrs. Interrupted	126,010	235,186	186,022	114,001	173,602	60,006.6
Customer-Interruptions	162,827	249,485	170,299	75,764	108,368	67,481.0
ASA (Percent)	99.9772	99.9583	99.9692	99.9805	99.9705	99.9898
SAIFI (Occurrence)	2.580	3.874	2.593	1.134	1.614	1.001
CAIDI (Minutes)	46.43	56.56	62.52	90.28	96.12	53.35
SAIDI (Minutes)	119.81	219.10	162.13	102.38	155.17	53.41

*Data normalized per guidelines specified in the report on reliability that was prepared for the Public Utilities Commission, titled "Methodology for Determining Reliability Indices for HECO Utilities," dated December 1990.

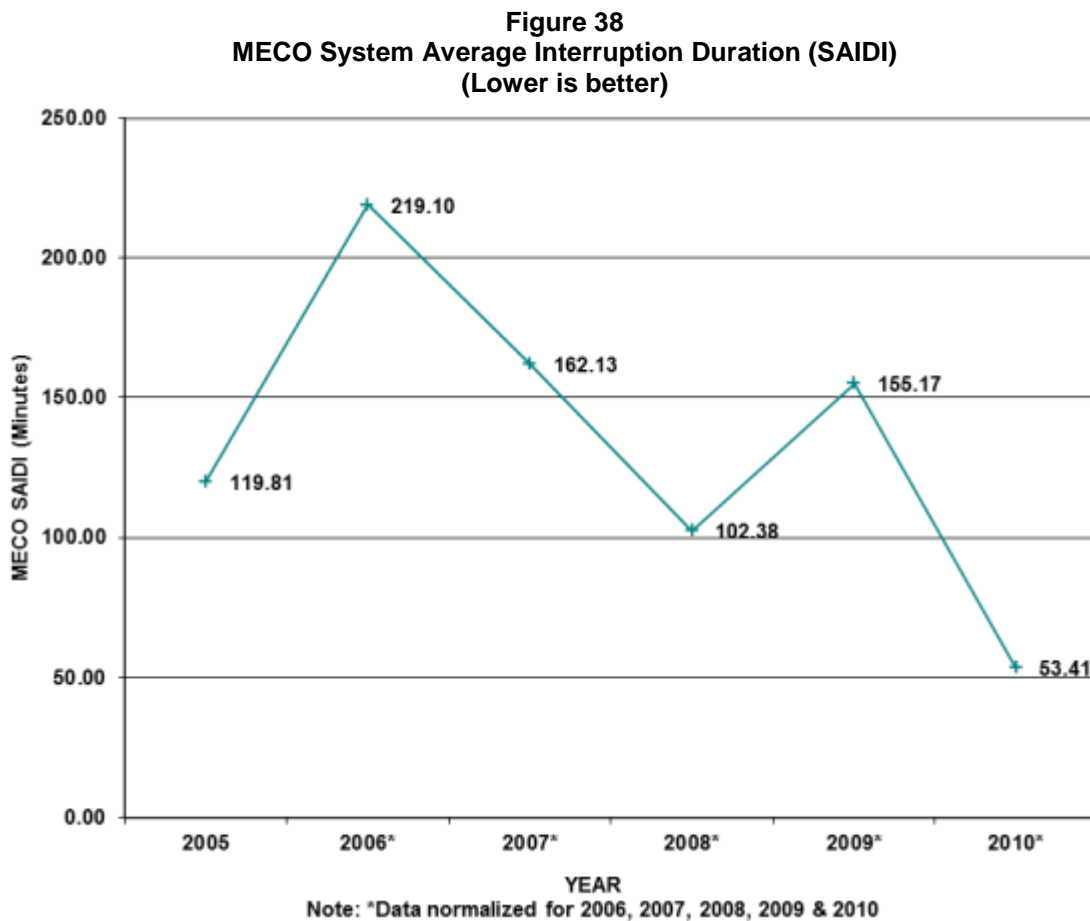


Figure 38 shows the System Average Interruption Duration Index (SAIDI) for the past six years. It shows that in 2010, the recorded SAIDI index was 53.41 and it had decreased from 2009 by 65.58%.

The SAIDI is the composite of both the SAIFI and CAIDI indices and produces a broader benchmark of system reliability by combining both the duration and the number of customer interruptions during a given period of time. The lower SAIDI result was due to a decrease in the SAIFI and CAIDI statistics as noted previously.

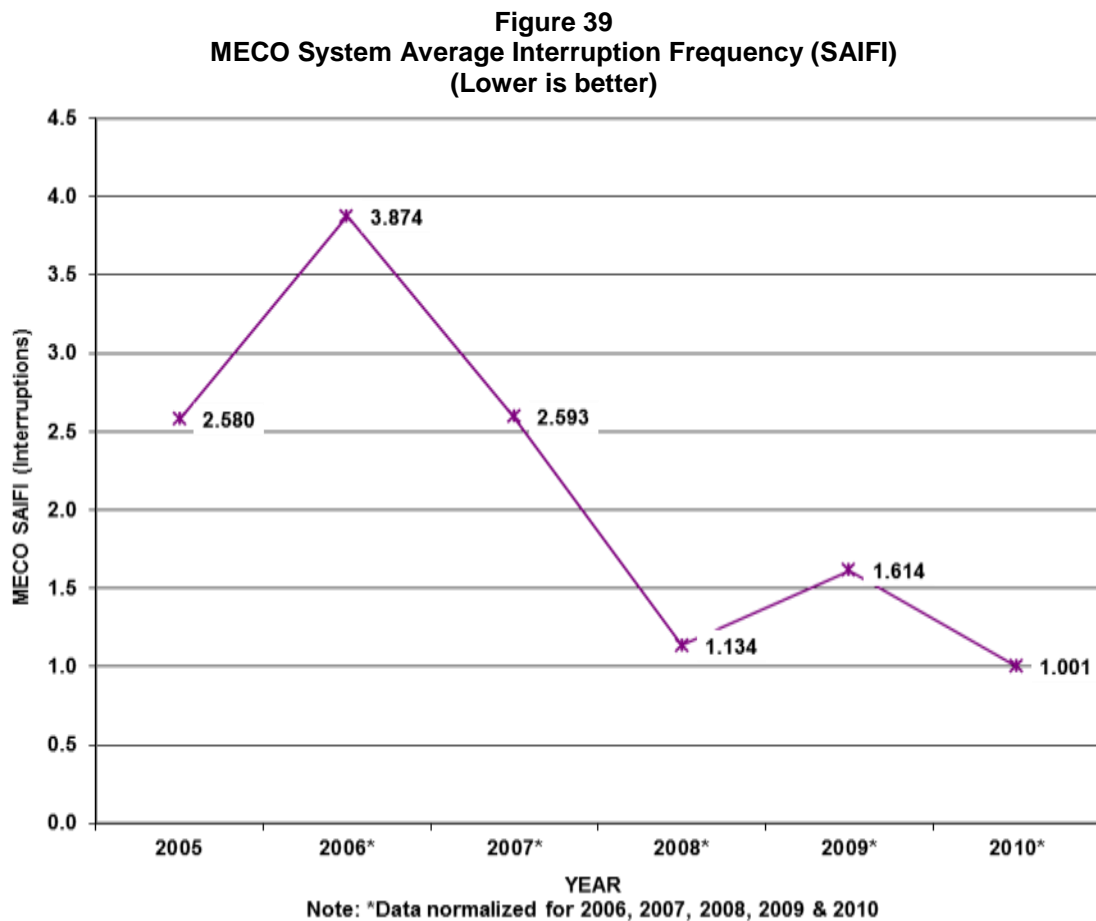


Figure 39 shows the System Average Interruption Frequency Index (SAIFI) for the past six years. It shows that in 2010, the recorded SAIFI index was 1.001 and it had decreased from 2009 by 37.98%.

A decrease in interruptions caused by cable faults, transformer overloads and trees or branches in lines contributed to a lower SAIFI for 2010.

Figure 40
MECO Customer Average Interruption Duration (CAIDI)
(Lower is better)

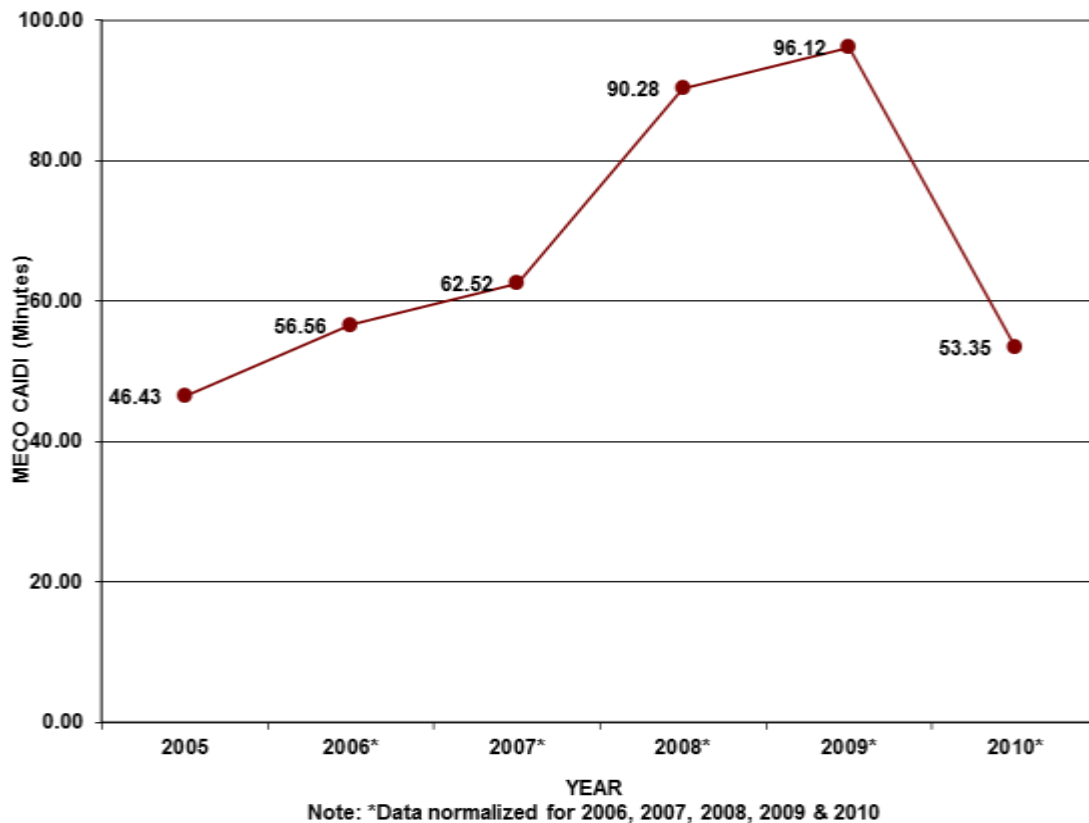


Figure 40 shows the Customer Average Interruption Duration index (CAIDI) for the past six years. The average electrical outage duration of 53.35 minutes per customer for 2010 is a decrease of 44.5% from the previous year.

The contributing factors to the decrease of the CAIDI index from 2009 were reductions of outage durations related to trees or branches in lines, cable faults and weather related outages (high wind, flooding and lightning). Outages due to trees or branches in lines decreased in 2010, which incurred 14,385.4 customer interruption hours, as compared to 38,834.8 customer interruption hours in 2009. Outages due to trees or branches in lines accounted for 24.0% of all customer interruption hours in 2010. Outages due to cable faults decreased in 2010, which incurred 5221.6 customer interruption hours, as compared to 10,164.3 customer interruption hours in 2009. Outages due to cable faults accounted for 8.7% of all customer interruption hours in 2010. Outages due to weather also decreased in 2010, which incurred 1,558.0 customer interruption hours, as compared to 31,364.4 customer interruption hours in 2009. Outages due to weather accounted for 2.6% of all customer interruption hours in 2010.

Figure 41
MECO Average Service Availability (ASA)
(Higher is better)

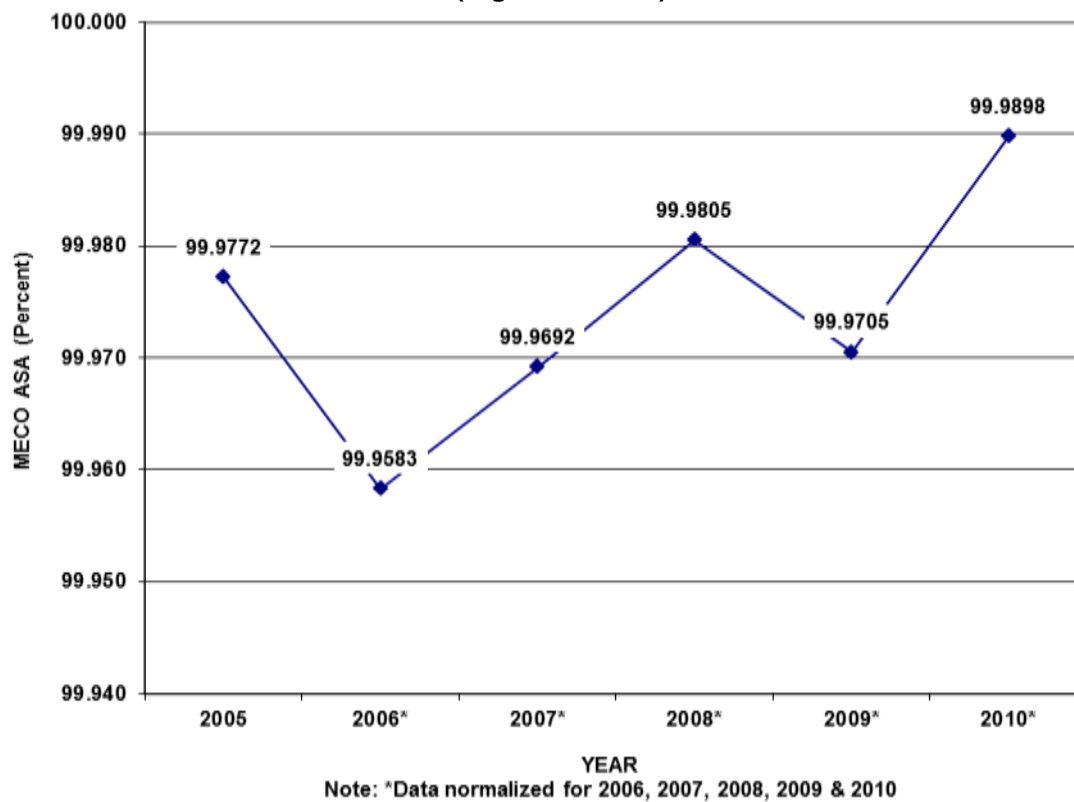


Figure 41 shows that the 2010 Average Service Availability (ASA) index has increased from the 2009 results of 99.9705% to 99.9898% during 2010. This was an increase of 0.0193% in the 2010 Average Service Availability compared to the previous year. The 2010 service reliability results (normalized) showed that MECO did make improvements in the SAIFI, CAIDI or SAIDI indices compared to 2009.

3. HELCO SERVICE QUALITY – NORMALIZED AND UNNORMALIZED RESULTS

The following HELCO electric utility service quality discussion is based on or excerpted directly from the HELCO Annual Service Reliability Report 2010 submitted to the Commission by HELCO. The report covers the 2010 calendar year. A complete copy is available for review at the Commission's office.

The average customer count increased 0.62% from 79,679 in 2009 to 80,171 in 2010.

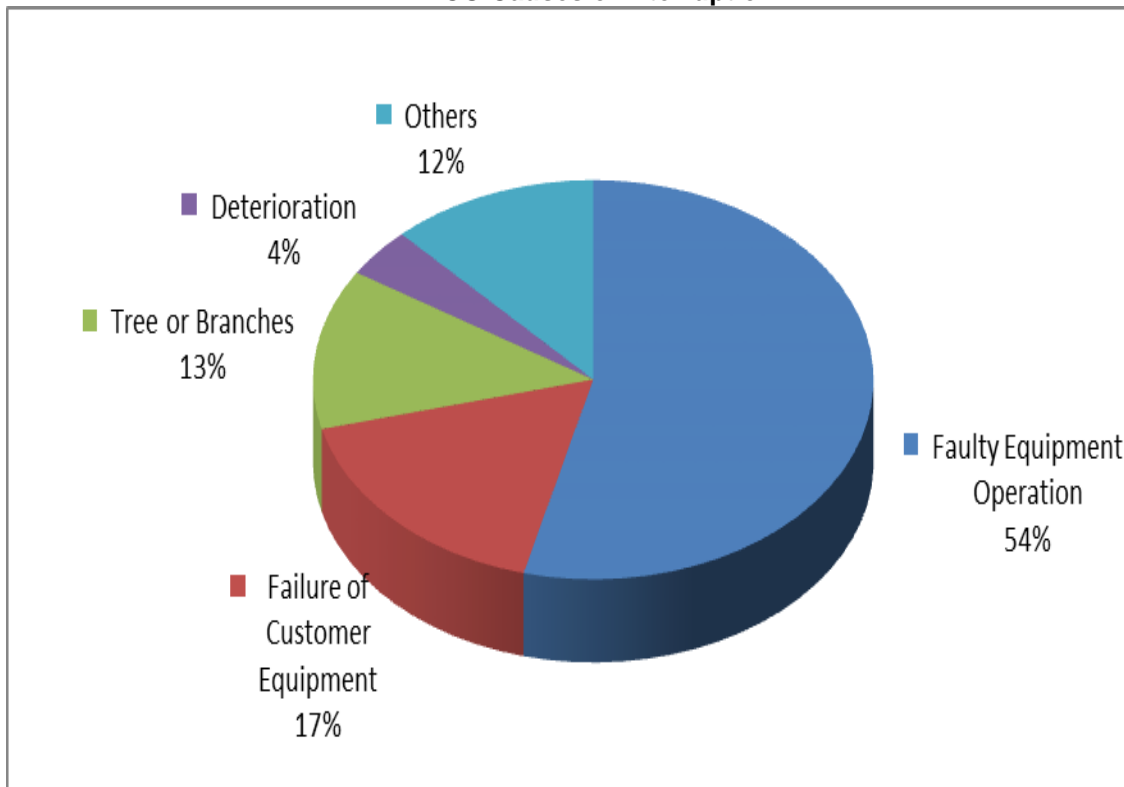
On a Not-Normalized basis, in 2010, a total of 302,402 Customer Interruptions were recorded for a total of 207,607 Customer Hours of Interruption. The System Average Interruption Frequency (SAIF) index was 3.772 and the Customer Average Interruption Duration (CAID) was 41.19 minutes.

On the Normalized basis, a total of 176,622 Customer Interruptions were recorded for a total of 169,522 Customer Hours of Interruptions. The System Average Interruption Frequency (SAIF) index was 2.203 and the Customer Average Interruption Duration (CAID) was 57.59 minutes.

On a Not-Normalized basis, the following were the leading causes of customer interruptions in 2010:

1. **Faulty Equipment Operation.** There were 163,340 Customer Interruptions, 162,370 (99%) of those were related to HELCO Generation.
2. **Failure of Customer Equipment.** There were 51,726 Customer Interruptions, 51,711 (nearly 100%) of those were related to Independent Power Producers (non-HELCO Generation).
3. **Trees and Branches.** There were 38,489 Customer Interruptions.
4. **Deterioration.** There were 11,530 Customer Interruptions.

Figure 42
HELCO Causes of Interruption



There were 214,081 generation related Customer Interruptions in 2010, of which 162,320 were related to HELCO Generation sources (76%) and 51,711 were related to Independent Power Producer (non-HELCO Generation) sources (24%). In 2010, Hamakua Energy Partners (HEP) and Pakini Nui Windfarm were the non-HELCO generation sources that caused customer interruptions.

HELCO normalized data per guidelines specified in a special report on reliability prepared for the Public Utilities Commission. This report, "Methodology for Determining Reliability Indices for HECO Utilities", dated December 1990, indicates that normalization may be utilized for "abnormal" situations such as hurricanes, tsunamis, earthquakes, floods, catastrophic equipment failures, and a single equipment outage that cascades into a loss of load that is greater than 10% of the system peak load. HELCO normalized four events in 2010:

- Underfrequency Loadshedding event on January 26 due to Puna Plant tripping off-line resulted in 10,972 Customer Interruptions and 563 Customer Hours of Interruption.
- Underfrequency Loadshedding event on April 9 due to Keahole CT-5, CT-4 and ST-7 tripping off-line while exporting 48.1MW resulted in 28,229 Customer Interruptions and 5,524 Customer Hours of Interruption.
- Underfrequency Loadshedding event on July 3 when Keahole CT-5 tripped during on-line water wash, which caused other units to ramp-up. Other units that tripped were Keahole CT-4 and ST-7, HEP CT-1, CT-2, and ST, and HRD Windfarm. This resulted in 63,329 customers and 28,560 Customer Hours of Interruption.

- Underfrequency Loadshedding event on October 27 due to Keahole CT-4 tripping because of a speed probe problem. HEP followed and tripped due to high temperatures, which resulted in a total of 23,250 Customer Interruptions and 3,437 Customer Hours of Interruption.

Significant interruptions, contributing more than 5,000 Customer Interruptions (CI) or Customer Interruption Duration (CID) greater than 5,000 Customer Hours of Interruption, that did not meet the normalization criteria were:

<u>Date</u>	<u>Problem</u>	<u>CI</u>	<u>CID</u>
January 17	Overhead conductors fell along Kahakai Boulevard due to deterioration.	1,635	5,480
February 22	Underfrequency Loadshedding – Keahole CT-5 tripped offline.	9,543	755
February 27	Underfrequency Loadshedding – Puna Steam unit tripped offline.	9,585	739
March 19	Underfrequency Loadshedding – Hamakua energy Partners CT-1 tripped offline.	5,406	455
April 24	Tree fell on lines affecting distribution circuit	3,282	5,074
May 7	Tree branch touching transmission lines	2,742	8,394
May 24	Underfrequency Loadshedding – Keahole CT-4	10,774	1,215
June 8	Underfrequency Loadshedding – Keahole ST-7	5,406	269
July 7	Underfrequency Loadshedding – Keahole ST-7	10,870	1,003
July 22	Brush Fire caused Waimea CB 3301 to open	1,972	6,179
July 22	Waimea CB 3301 failure	1,972	14,139
August 12	Scheduled outage to do repairs at Waimea Switching Station.	1,989	16,176
August 22	Underfrequency Loadshedding – Kamaoa Wind Farm – broken breaker switch	10,902	730
November 18	Underfrequency Loadshedding – Keahole CT-5 and ST-7	16,328	2,698
December 4	Scheduled outage maintenance to Paauilo Substation	486	3,815
December 19	Tree fell on lines affecting distribution circuit	1,512	5,241
	Total	94,404	72,362

HELCO Normalized

Year	ASA	Number of Customers	Customer Interruptions	CID	SAIF	CAID
2005	99.968	72,513	153,982	200,374	2.124	78.08
2006	99.971	75,353	188,602	190,061	2.503	60.46
2007	99.961	77,933	208,000	269,475	2.669	77.73
2008	99.973	79,386	179,862	189,156	2.266	63.10
2009	99.972	79,679	246,437	197,371	3.093	48.05
2010	99.946	80,171	176,622	169,522	2.203	57.59

HELCO Not-Normalized

Year	ASA	Number of Customers	Customer Interruptions	CID	SAIF	CAID
2005	99.962	72,513	246,557	239,935	3.400	58.39
2006	99.950	75,353	341,289	328,758	4.529	57.80
2007	99.955	77,933	257,924	305,681	3.310	71.11
2008	99.973	79,386	194,807	190,314	2.454	58.62
2009	99.965	79,679	298,334	246,916	3.744	49.66
2010	99.970	80,171	302,402	207,607	3.772	41.19

Figure 43
HELCO System Average Interruption Frequency (SAIF)
(Lower is better)

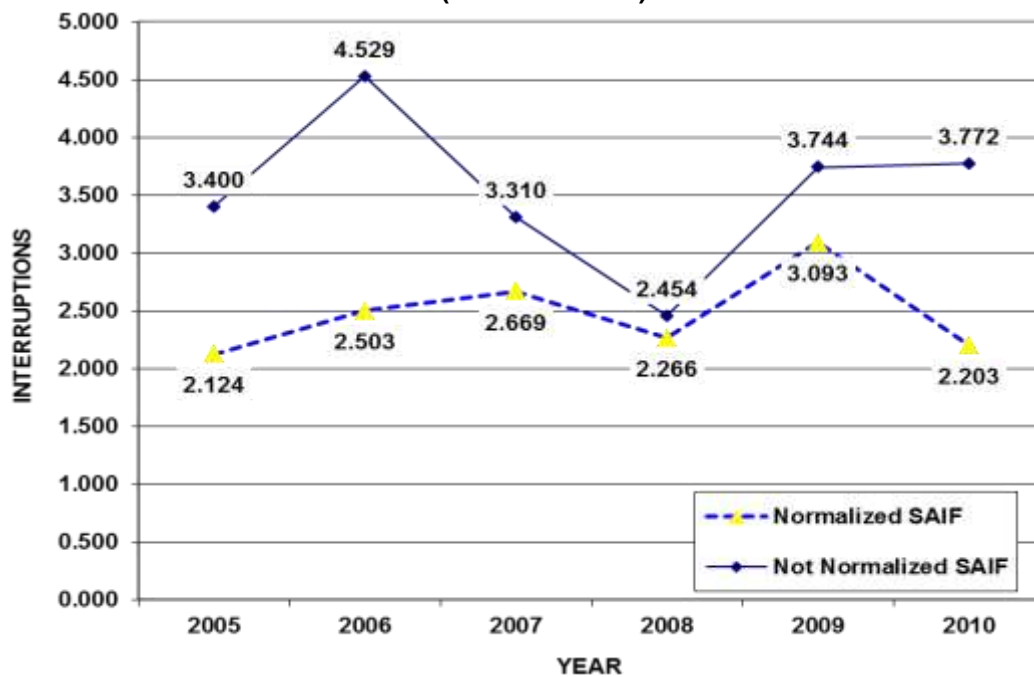


Figure 44
HELCO Customer Average Interruption Duration (CAID)
(Lower is better)

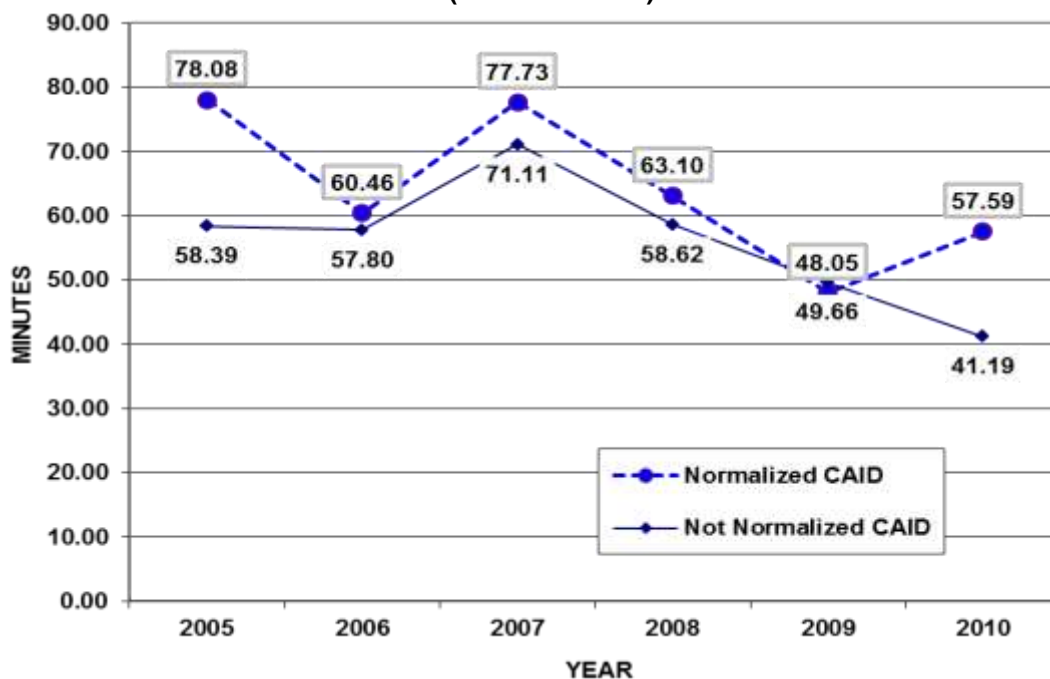
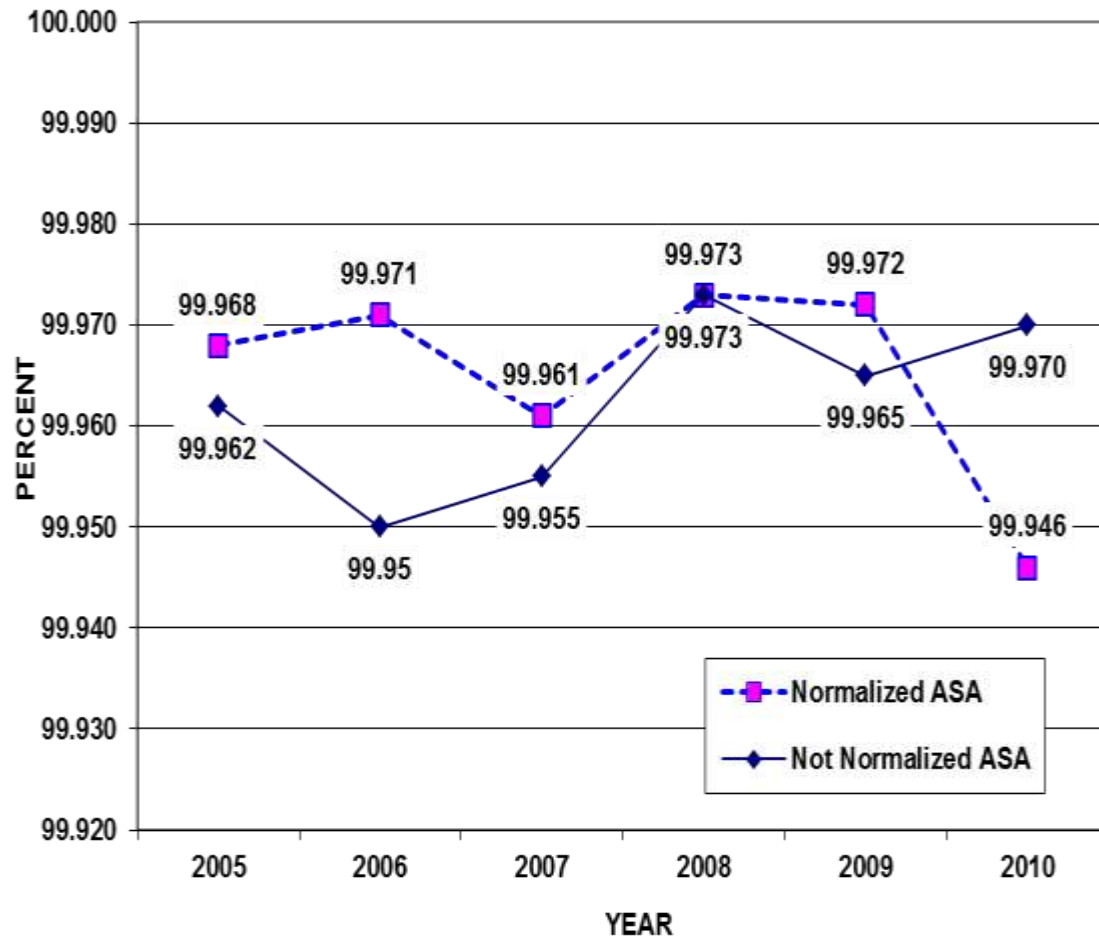


Figure 45
HELCO Average Service Availability (ASA)
(Higher is better)



4. KIUC SERVICE QUALITY – UNNORMALIZED RESULTS

The following KIUC electric utility service quality discussion is based on or excerpted directly from the KIUC Annual Service Reliability Report 2010 submitted to the Commission by KIUC. The report covers the 2010 calendar year. A complete copy is available for review at the Commission's office.

The average number of electric ratepayers increased in 2010 to 36,113 (0.30%) over 2009's 36,004. The system peak of 76.54 MW was recorded. The 2010 system peak demand increased by 1.13 MW or 1.48% over 2009's peak of 75.41 MW.

KIUC has not normalized any of its data for the period 2003 through 2010. The reliability indices are calculated using the data from all system interruptions except scheduled interruptions for maintenance.

The unnormalized reliability results for 2006, 2007, 2008, 2009 and 2010 are shown in the table "KIUC Annual Service Reliability Indices." Figures 46 to 49 contain the data discussed above in graphical form.

KIUC Annual Service Reliability Indices					
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
System Peak (MW)	76.78	77.75	74.27	75.41	76.54
Number of Customers	34,671	35,207	35,713	36,004	36,113
ASA (Per cent)	99.969	99.961	99.983	99.983	99.980
SAIF (Occurrences)	8.17	8.43	4.45	6.17	4.76
CAID (Minutes)	20.16	24.35	19.84	14.63	20.74
SAID (Minutes)	164.7	205.15	88.18	90.28	98.72

Figure 46
KIUC Average Service Availability (ASA)
(High is better)

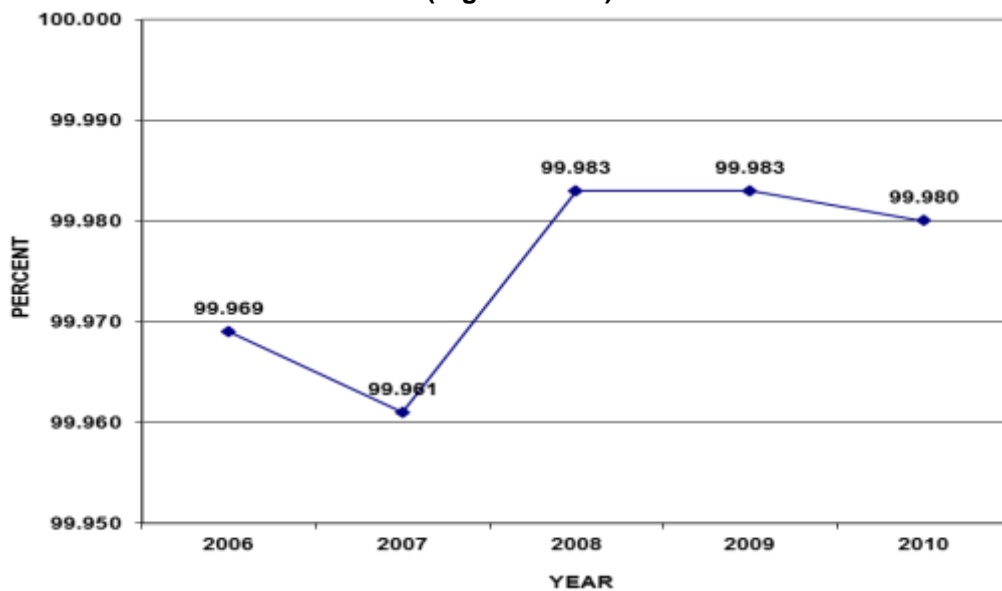


Figure 46 shows the Average System Availability (ASA) for the past five years. The 2010 ASA of 99.980% is only slightly lower than the two best years of the five-year period of 99.983% and equals the five-year average of 99.975%.

Figure 47
KIUC System Average Interruption Frequency Index (SAIFI)
(Lower is better)

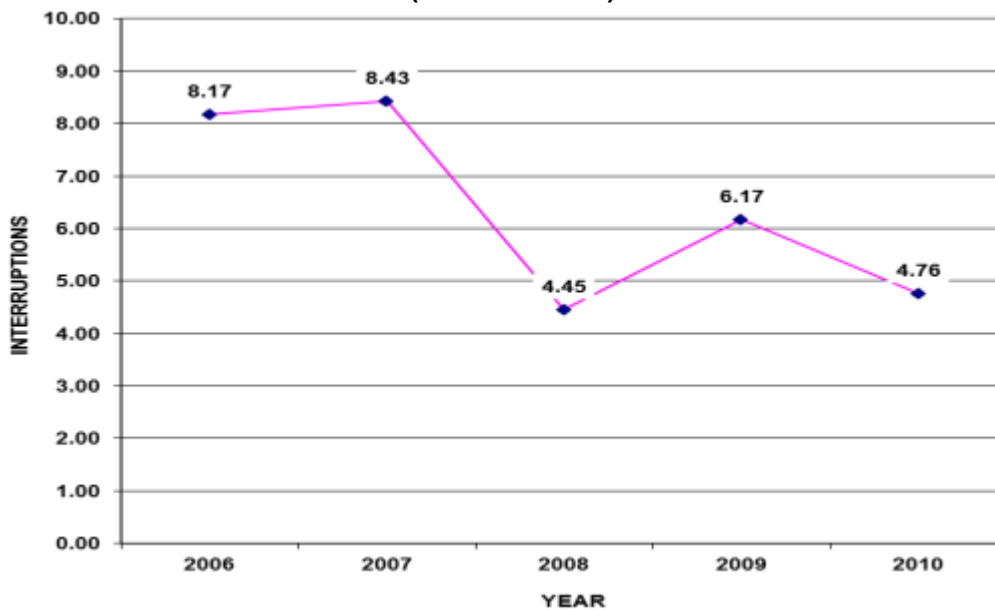


Figure 47 shows the System Average Interruption Frequency Index (SAIFI) for the past five years. The 2010 SAIFI of 4.76 was second best of the five-year period and better than the five-year average of 6.39.

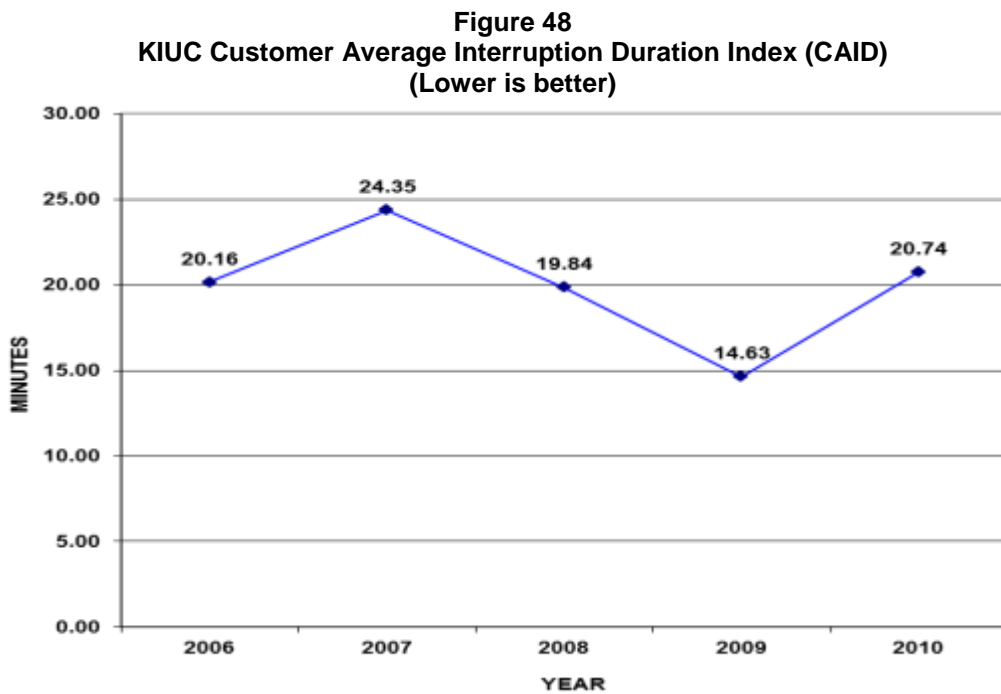


Figure 48 shows the Customer Average Interruption Duration Index (CAID) for the past five years. The 2010 CAIDI of 20.74 was similar to the five-year average of 19.94.

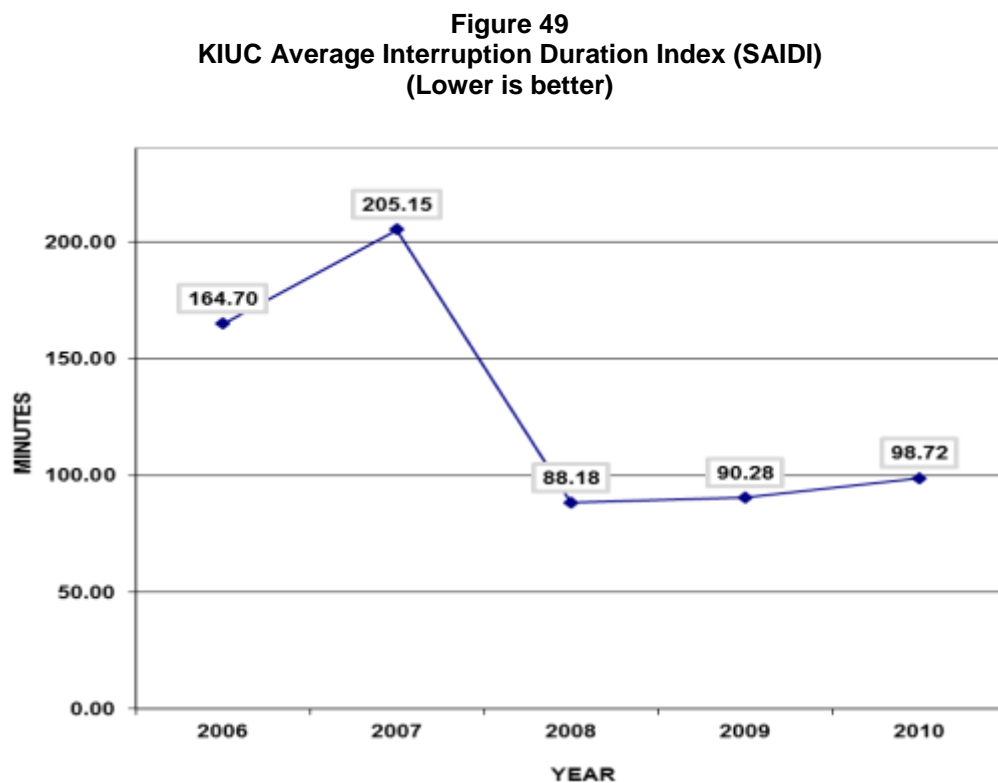


Figure 49 shows the System Average Interruption Duration Index (SAIDI) for the past five years. The 2010 SAIDI of 98.72 increased slightly over the previous two years of the five-year period but is better than the five-year average of 129.41.

In the following figures, the most recent year's sustained interruption causes are examined. Interruptions can be broken down many ways, but we will focus on two areas: causes by frequency (what caused the most interruptions), and causes by magnitude (what caused the most severe interruptions).

Figure 50
Sustained Interruptions by Frequency

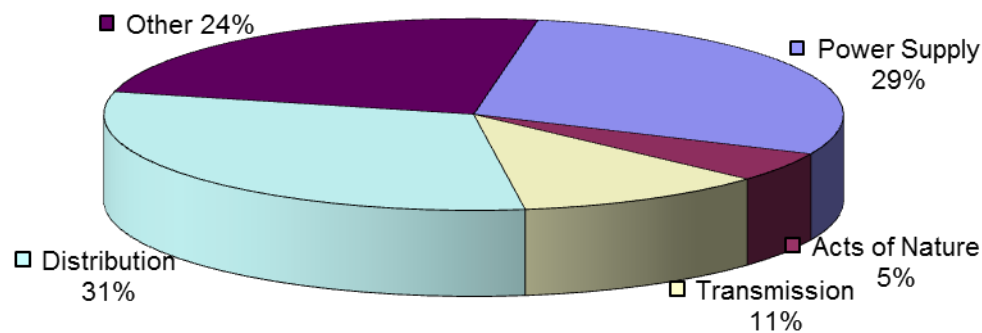


Figure 50 shows the breakdown by frequency. The leading cause of outages was “Distribution” – failure or malfunction of distribution equipment including cables, fuses, insulators, poles, and transformers. A close second was loss of “Power Supply” confined within KIUC. An example of this is generating unit problems that result in a reduction of output, causing an under frequency load shed. Causing the third most interruptions was “Other” – persons or equipment not related to or owned by KIUC. Examples include auto accidents that contact utility poles or wires, non-KIUC contractors such as construction crews that dig into underground cables or tree trimmers that contact overhead wires, and trees that contact wires due to overgrowth. The fourth leading cause of interruptions was “Transmission” – failure or malfunction of transmission equipment including insulators, large transformers, lightning arrestors, and switches. The fifth (or least) and final cause of interruptions was “Acts of Nature” – high winds, floods, storms, etc.

Figure 51
Sustained Interruptions by Magnitude

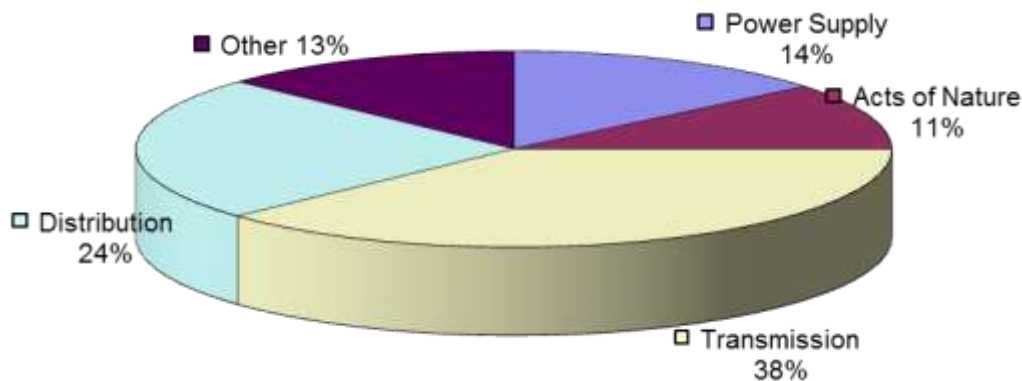
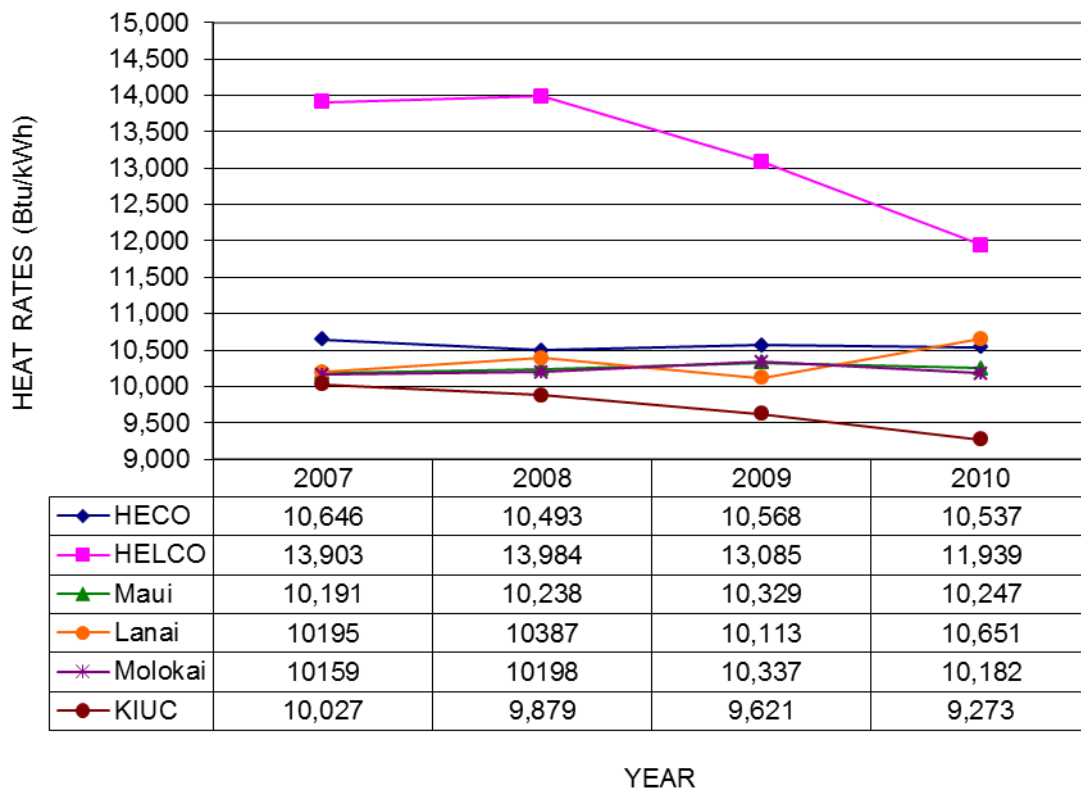


Figure 51 shows the breakdown by magnitude. The same descriptions and examples that were described following Figure 50 apply also for Figure 51. The causes of severe interruptions, in order from most to least, were "Transmission," "Distribution," "Power Supply," "Other," and "Acts of Nature".

5. ELECTRIC UTILITIES GENERATING EFFICIENCY RESULTS

The following provides annual heat rate values for HECO, HELCO, Maui division of MECO, and KIUC for the past four (4) years. The annual heat rates for Lanai and Maui of MECO available for the past three years. Heat rates are measured in Btu/kWh, and equate to the amount of energy consumed by the generating units (in Btu) per kWh of electricity produced. The heat rates provide a measure of the generating efficiency of the utility, with a lower value indicative of greater generating efficiency. The heat rate is generally dependent on the age, type of generating units and fuels used by a given utility. Figure 52 shows the heat rates of the electric utilities from 2007 to 2010.

Figure 52
Electric Utility Heat Rates



B. TELECOMMUNICATIONS SERVICE QUALITY MEASUREMENTS

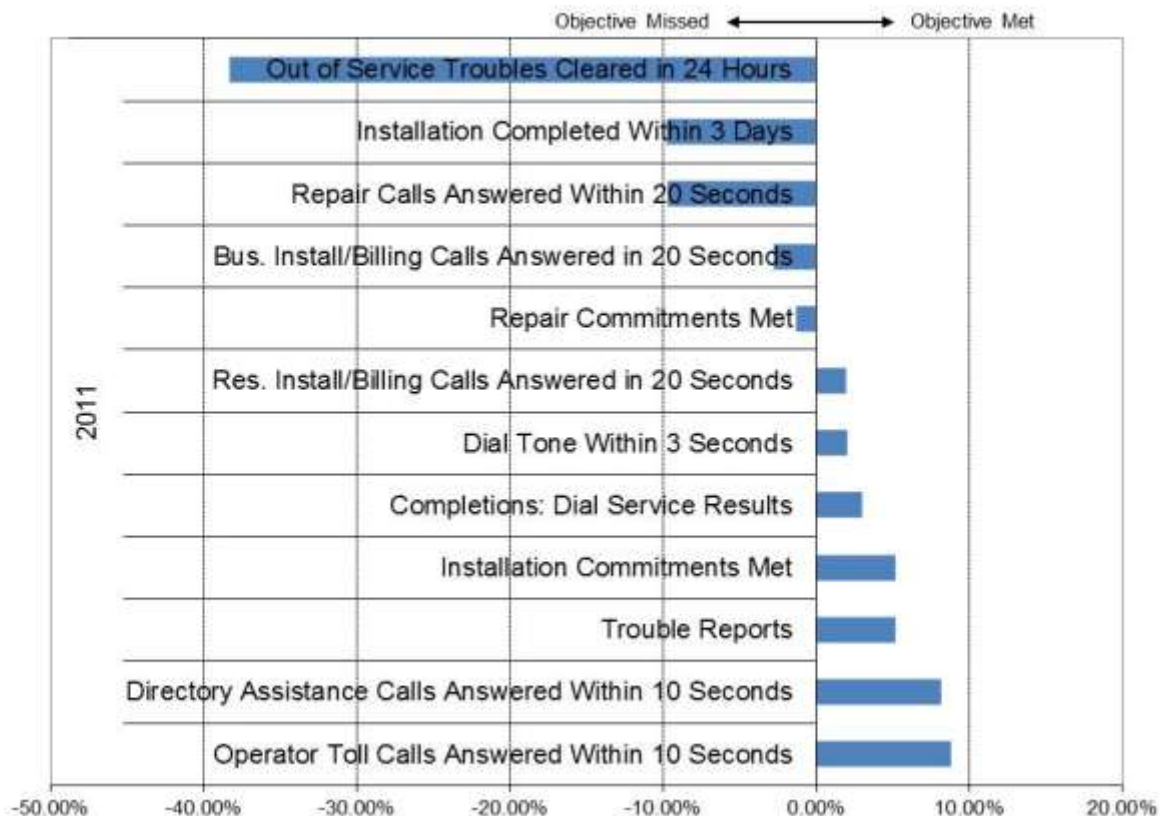
Hawaiian Telcom files monthly reports to the Commission which measure and report the company's compliance with twelve telecommunications service quality objectives, as required under HAR Sections 6-80-93 through -98. Regulated activity (such as installation of a primary line) and non ILEC regulated activity (such as provision of DSL service) are not always separately tracked by the company, and this may affect the consistency of service quality data beginning in 2007. The Commission continues to monitor Hawaiian Telcom's systems and activities to resolve issues and address customer concerns and complaints. Beginning with Hawaiian Telcom's June 2011 filing, these quality measurements are being filed as confidential and can't be revealed publicly. Therefore, the figures below do not reflect June 2011 data.

In order to compare all service quality measurements, which have different objectives, the Commission has calculated the degree to which the company has either exceeded or missed service quality objectives for each service quality measure. A positive average service quality compliance level of five percent (5%) means that the company has exceeded the service quality compliance objective by an average of five percent (5%) over the reporting period. A negative average service quality compliance level of negative five percent (-5%) means that the company missed the service quality compliance objective by an average of five percent over the reporting period. If, on average, the company meets the service quality objective the average service quality compliance level would be zero percent (0%).

The following charts show Hawaiian Telcom's Average Service Compliance Levels for Fiscal Year 2010-2011 and aggregated Verizon and Hawaiian Telcom Average Service Compliance Levels from 2001 through 2011.

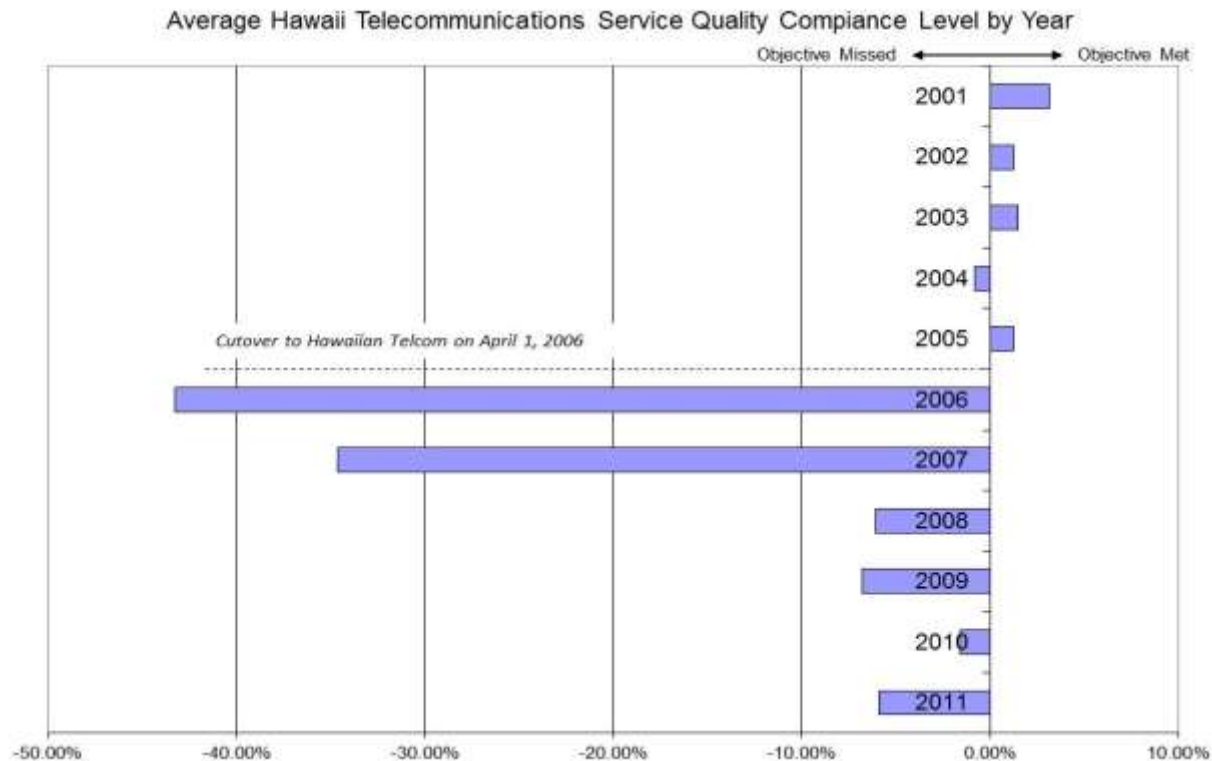
FIGURE 53

FY 2010-2011 Average Service Quality Compliance Level



Looking at performance during Fiscal Year 2010-2011, the measurements show that, on average, the company usually met or exceed objectives for five of the twelve service quality objectives. Five (5) areas in which Hawaiian Telcom failed to meet service quality objectives were: (1) Percent Out-of-Service Troubles Cleared in 24 Hours; (2) Percent Installations Completed Within 3 Days; (3) Repair Calls Answered w/in 20 Seconds; (4) Percent Business Installation/Billing Office Calls Answered Within 20 Seconds; and (5) Repair Commitments Met.

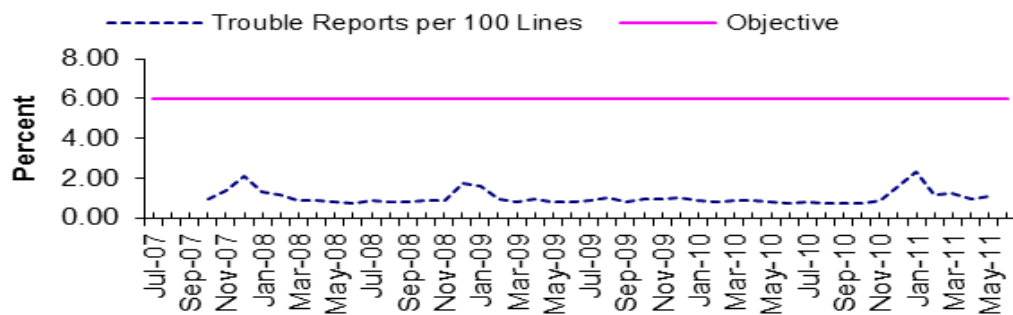
FIGURE 54



Service Quality Measurement Detail

FIGURE 55

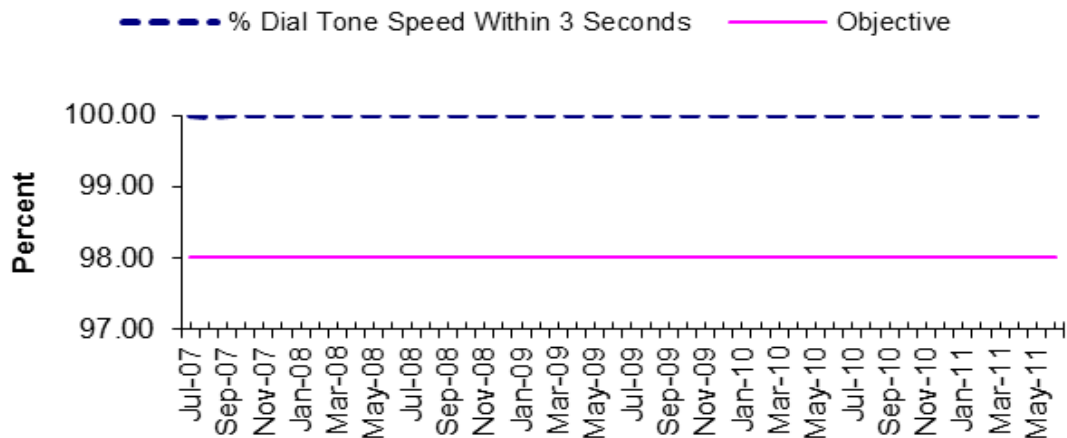
Total Customer Trouble Reports Per 100 Lines



Total Customer Trouble Reports Per 100 Lines - This performance area measures customer network trouble reports per 100 access lines. It is calculated by taking the total customer network trouble reports divided by total access lines times 100. Since October 2007, the results include additional trouble report activity that was not previously included in this metric. Hawaiian Telcom's systems are currently unable to exclude FCC regulated services (such as DSL) when computing these results, which may affect the consistency of the service quality measurements.

FIGURE 56

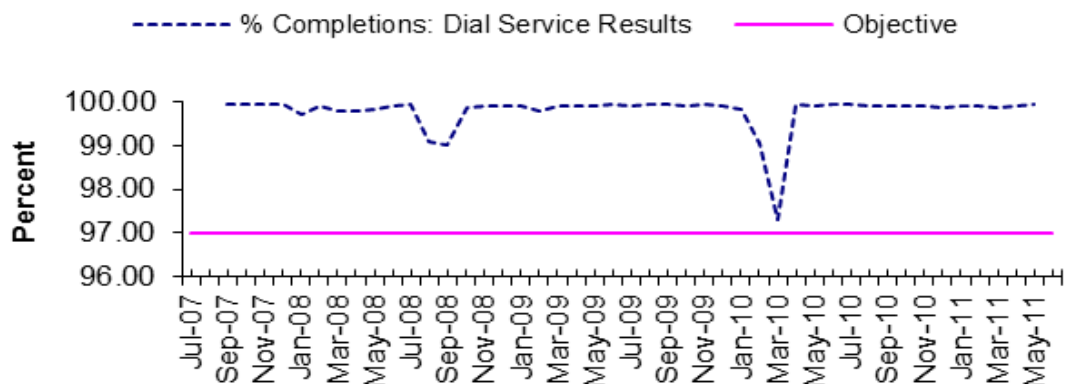
Dial Tone Within 3 Seconds



Dial Tone Speed - % Dial Tone Within 3 Seconds - This performance area measures the percentage of calls receiving dial tone within three (3) seconds. It is calculated by taking the number of calls in which dial tone was provided within three (3) seconds divided by the total number of calls times 100.

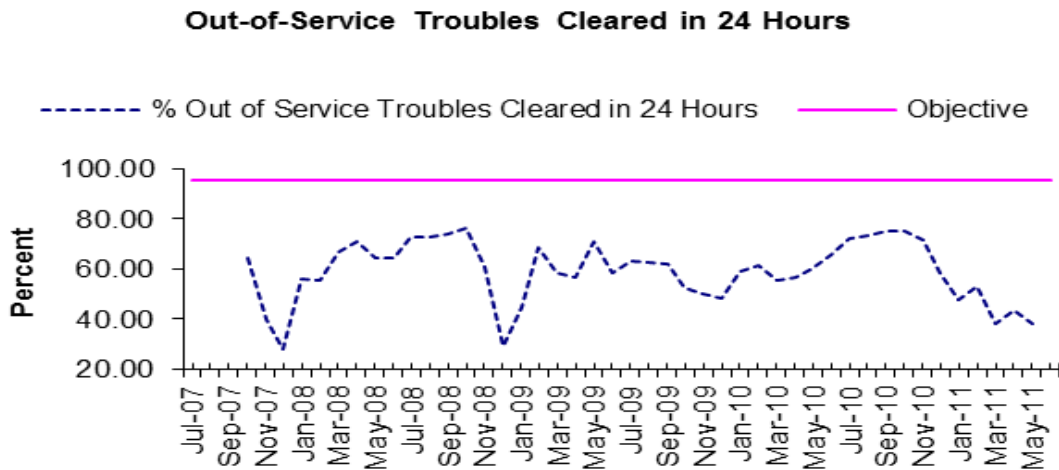
FIGURE 57

Completions: Dial Service Results



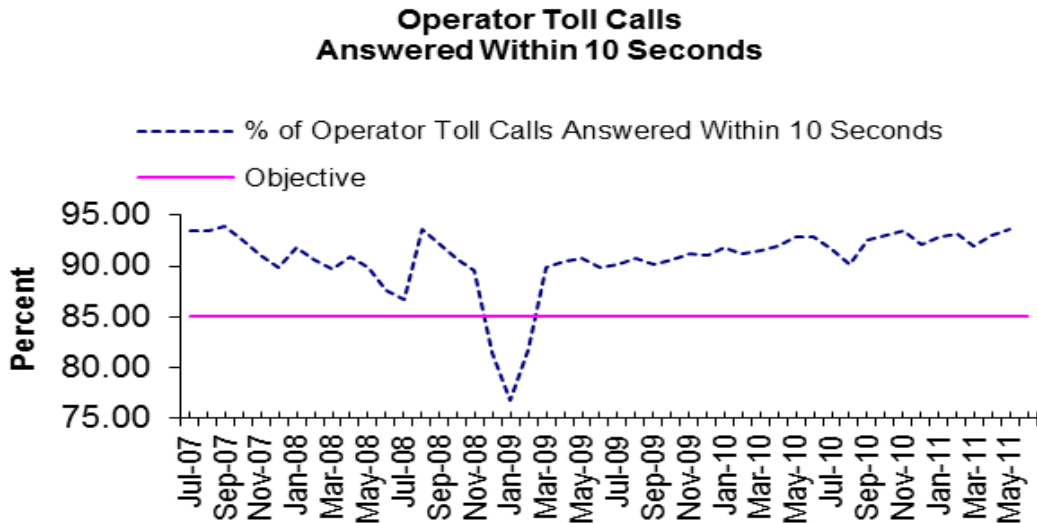
Dial Service Results - % Completion - This performance area measures call completion performance on interoffice trunk groups. It is calculated by taking the number of unblocked calls on interoffice trunk groups divided by the total number of attempts on interoffice trunk groups times 100.

FIGURE 58



% OOS Trouble Cleared in 24 Hours - This performance area measures customer out-of-service ("OOS") network trouble reports cleared within 24 working hours. It is calculated by taking the total customer OOS network reports cleared within 24 working hours divided by the total customer OOS network trouble reports times 100. Since October 2007, the results include additional activity that was not previously included in this metric. Hawaiian Telcom's systems are currently unable to exclude FCC regulated services (such as DSL) when computing these results, which may affect the consistency of the service quality measurements.

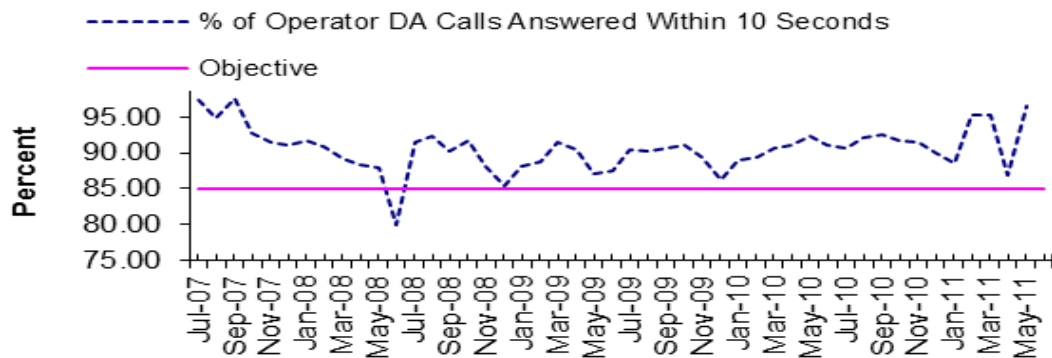
FIGURE 59



% Operator Toll Calls Answered Within 10 Seconds - This performance area measures the number of calls handled within ten (10) seconds divided by the total number of calls handled times 100 for calls to the toll operator.

FIGURE 60

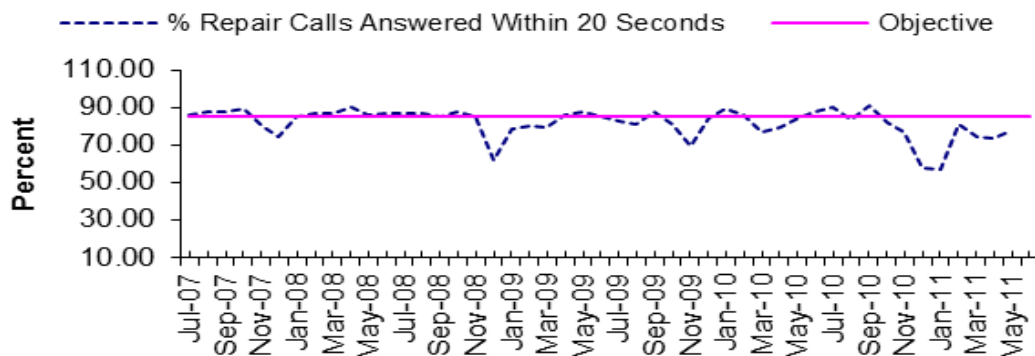
**Directory Assistance Calls
Answered Within 10 Seconds**



% Operator Directory Assistance Calls Answered Within 10 Seconds - This performance area measures the number of calls handled within ten (10) seconds divided by the total number of calls handled times 100 for calls to the directory assistance operator.

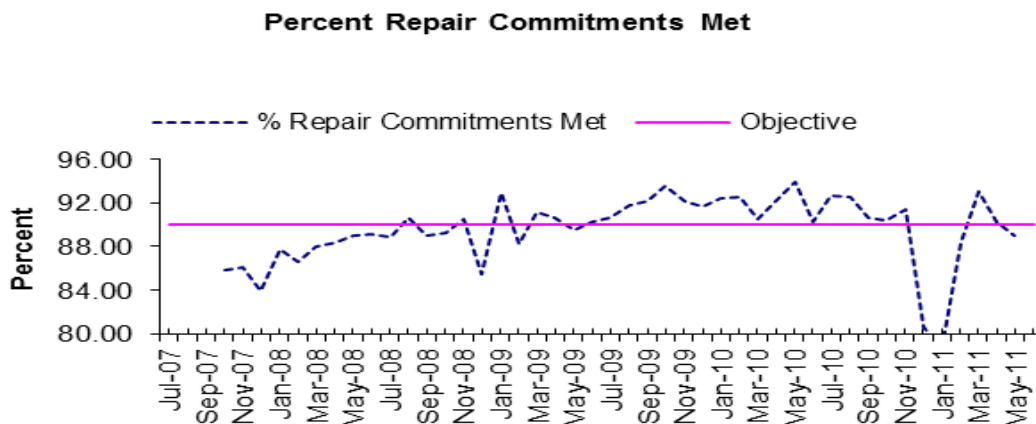
FIGURE 61

Repair Calls Answered Within 20 Seconds



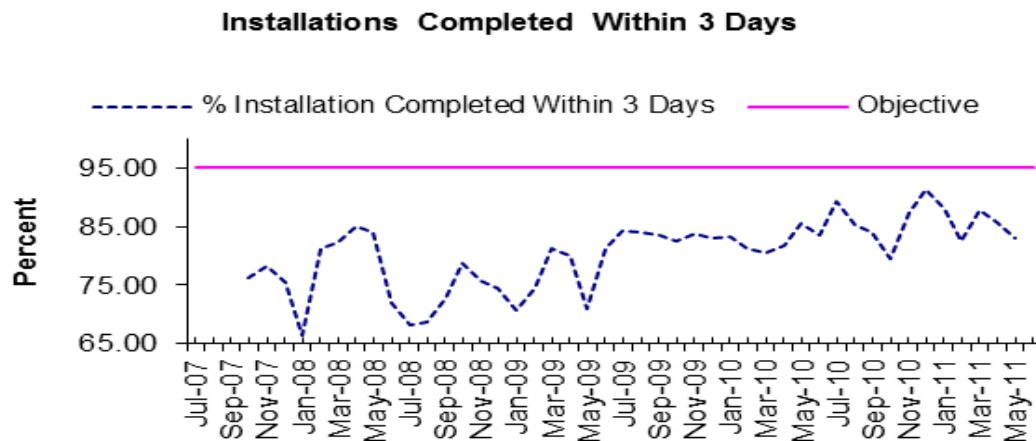
% Repair Calls Answered Within 20 Seconds - This performance area measures the number of calls answered within twenty (20) seconds divided by the total number of calls times 100 for calls to the repair answer center.

FIGURE 62



% Repair Commitments Met - This performance area measures the repair tickets completed by the committed due date. It is calculated by taking the total customer network trouble reports for which the commitments were met divided by total customer network troubles times 100. Since October 2007, the results include additional activity that was not previously included in this metric. Hawaiian Telcom's systems are currently unable to exclude FCC regulated services (such as DSL) when computing these results, which may affect the consistency of the service quality measurements.

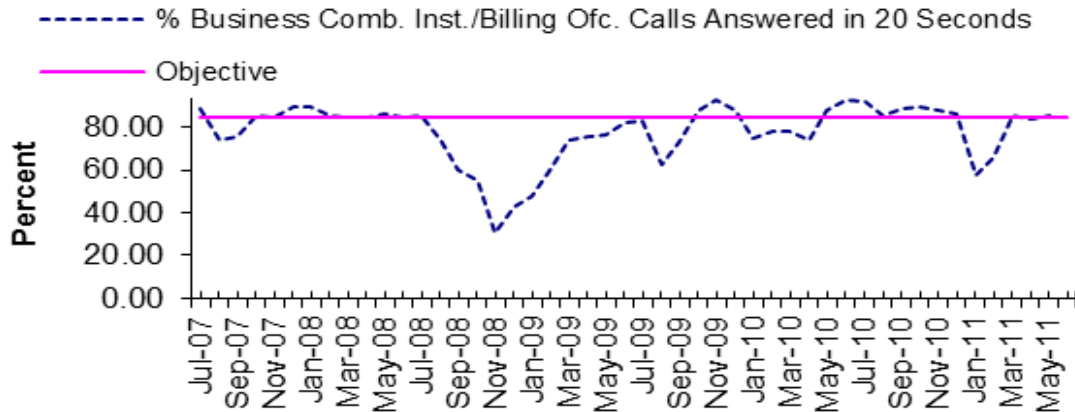
FIGURE 63



% Installations Completed Within 3 Days - This performance area measures the percent of basic orders completed within three (3) working days. It is calculated by taking the total installation ("I"), move ("M") and change ("C") basic orders completed within three (3) working days divided by the total number of I, M and C orders times 100. Since October 2007, the results include additional activity that was not previously included in this metric. Hawaiian Telcom's systems are currently unable to exclude FCC regulated services (such as DSL) when computing these results, which may affect the consistency of the service quality measurements.

FIGURE 64

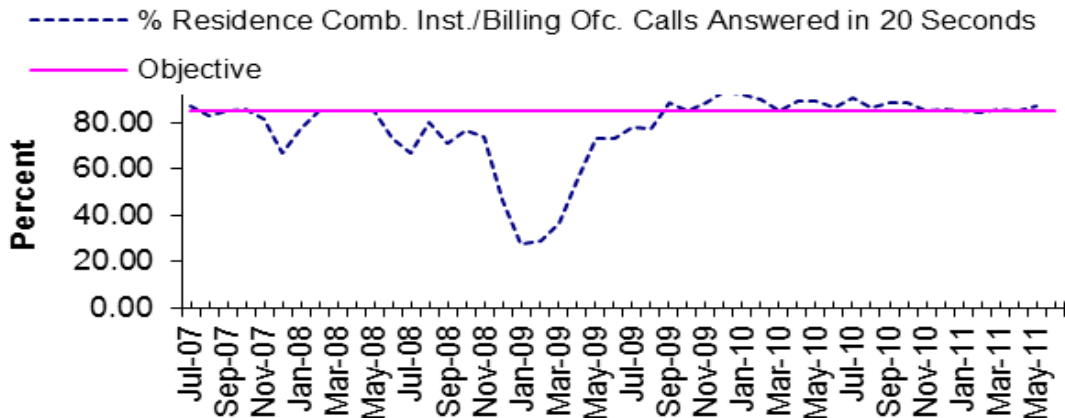
Business Installation/Billing Office Calls Answered Within 20 Seconds



% Combined Business Installation/Billing Office Calls Answered Within 20 Seconds - This performance area measures the number of calls answered within twenty (20) seconds divided by the total number of calls times 100 for calls to the business installation and billing center.

FIGURE 65

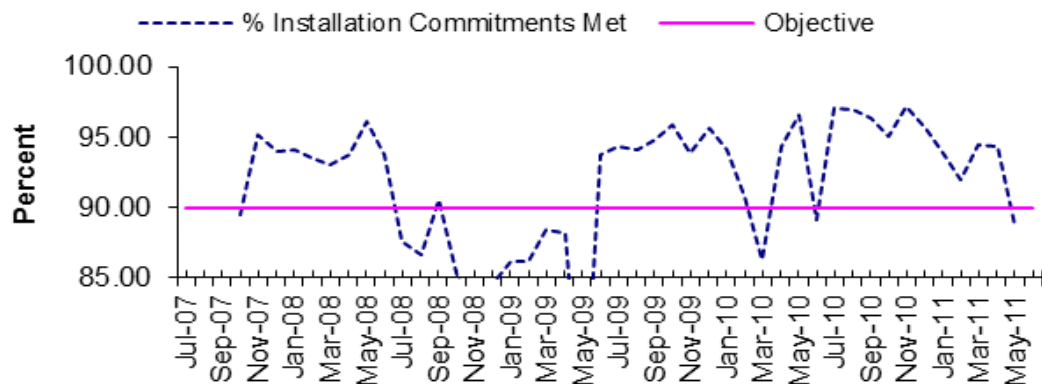
Residence Installation/Billing Office Calls Answered Within 20 Seconds



% Combined Residence Installation/Billing Office Calls Answered Within 20 Seconds - This performance area measures the number of calls answered within twenty (20) seconds divided by the total number of calls times 100 for calls to the residence installation and billing center.

FIGURE 66

Installation Commitments Met



% Installation Commitments Met - This performance area measures the percent of basic orders where the work for the customer is complete and service is available for use by no later than the commitment made to the customer. It reflects the percent as calculated by taking the installation ("I"), move ("M") and change ("C") order installation commitments met divided by the total number of I, M and C orders taken times 100. Since October 2007, the results include additional activity that was not previously included in this metric. Hawaiian Telcom's systems are currently unable to exclude FCC regulated services (such as DSL) when computing these results, which may affect the consistency of the service quality measurements.

XIII. LEGISLATION ENACTED BY 2011 LEGISLATURE AFFECTING PUBLIC UTILITIES

A. 2011 LEGISLATIVE MEASURES RELATING TO THE PUBLIC UTILITIES COMMISSION:

1. (SB704 SD2) RELATING TO RENEWABLE ENERGY

In an effort by the legislature to clarify the definition of a public utility under the general supervisory authority of the Commission, Act 9, SLH 2011, exempts certain third-party owners and operators of on-site renewable energy systems, such as residential solar systems, from the definition of a "public utility." This exemption effectively excludes such third-party owner/operators from regulation as a public utility in the State. Such companies that enter into arms-length, fully negotiable independent power purchase agreements are not considered to serve the same function or have the same broad impact as major electric service providers that currently qualify as public utilities.

2. (SB1347 SD1 HD2 CD1) RELATING TO THE PUBLIC UTILITIES COMMISSION

Act 69, SLH 2011, requires the Commission and the Consumer Advocate to accept required documents, including applications, complaints, pleadings, and briefs, in both paper form and electronic form, beginning July 1, 2011, and to subsequently adopt rules to provide for the acceptance of these documents. The measure also requires the Commission and the Consumer Advocate to accept, beginning July 1, 2013, the required documents described above in either paper form or electronic form. The Commission is also ordered to report to the legislature prior to the convening of the 2012 regular session its progress in implementing an electronic filing system, as well as its comprehensive plan to meet future electronic filing system requirements of the act taking effect in 2013, additional funding requirements, and recommendations for further legislation to create a working electronic filing system for the Commission.

Act 69 also authorizes the Commission to allow an electric utility company and its electric utility affiliates that aggregate their renewable portfolios in order to satisfy the State's renewable portfolio standards to collectively share renewable portfolio costs among the company, its affiliates and ratepayers. The sharing of renewable portfolio costs is allowed through the use of an automatic rate adjustment clause to be approved by the Commission.

3. (SB1482 SD1 HD1 CD1) RELATING TO THE PUBLIC UTILITIES COMMISSION

This measure, Act 109, SLH 2011, specifically requires the Commission to consider the need to reduce the State's dependence on fossil fuels when exercising its regulatory authority. In determining the reasonableness of costs associated with a utility's capital improvements and/or operations, the Commission is authorized to find that short-term costs or direct costs calculated to be higher than fossil fuel-dependent alternatives may be reasonable in light of the longer-term impacts on the State's use of fossil fuels.

4. (HB1342 HD1 SD2 CD1) RELATING TO TELECOMMUNICATIONS

Act 151, SLH 2011, exempts broadband infrastructure improvements from state and county permit requirements under certain conditions from the period January 1, 2012 to January 1, 2017. In addition, all parties are generally exempted from having to replace existing utility poles when replacing or improving associated cable lines, and the Commission is

authorized to allow for cost recovery by public utilities that replace utility poles in compliance with this Act.

Act 151 also transfers the authority and responsibilities of the administrator of the cable television division for the department of commerce and consumer affairs related to the State's telework promotion and broadband assistance advisory council to the director of commerce and consumer affairs.

5. (HB200 HD1 SD1 CD1) RELATING TO THE STATE BUDGET

Act 164, SLH 2011, appropriates the Commission's operating budget for both fiscal years 2011-2012 and 2012-2013. The Commission received an operating budget appropriation of \$11,049,409.00 for fiscal year 2011-2012 that is to fund the operations of both the Commission and the division of consumer advocacy within the department of commerce and consumer affairs, with a similar allocation of \$11,386,174.00 provided for fiscal year 2012-2013 for the same purposes.

6. (HB1520 HD2 SD2 CD1) RELATING TO RENEWABLE ENERGY

Act 204, SLH 2011, requires the Commission to investigate the viability of an on-bill financing program to allow electric utility company customers to finance purchases of renewable energy systems or energy efficient devices through the energy savings provided by such systems or devices. A number of specific questions are suggested in the act as focal investigation points, including the costs and benefits associated with operation of the program, the program's ability to make renewable energy and energy efficiency more accessible to the rental market and other underserved markets, and reasonable penalties for default by on-bill financing participants.

The Commission is now heavily engaged in the process of carrying out the study and its associated activities required under Act 204.

7. (SB98 SD2 HD1 CD1) RELATING TO WATER CARRIERS

Act 213, SLH 2011, specifically sets out several new requirements for the Commission to follow in managing the certificate for public convenience and necessity (CPCN) process for water carrier applicants, as well as a set of requirements for the posting of documents to the Commission's website. First, notice provided by the Commission to both the CPCN applicant and each island to be affected by the applicant are mandated, including information required on the proposed operations, routes, services and proposed effective date of service. In addition, the Commission must provide notice and hold public hearings before approving an application for a CPCN. Restrictions are imposed on the issuance of a CPCN for water carriers, which must be supported by specific evidentiary findings in the hearing record, including a finding that "existing water carrier services are inadequate to presently service the public or meet demonstrated and quantifiable future demands for service." The measure also prohibits the Commission from issuing a CPCN for a water carrier applicant if evidence indicates that such issuance would adversely affect the profitability of an existing water carrier. The Commission is authorized to issue temporary or interim CPCNs for water carriers only in the case of state-declared emergencies. Lastly, the Commission is required to post a link on the Commission's website front page to an electronic version of each application, and each order, including its final decision and order.

B. OTHER 2011 LEGISLATIVE MEASURES RELATING TO UTILITIES

1. (SB1346 SD2) RELATING TO RENEWABLE PORTFOLIO STANDARDS

Act 10, SLH 2011, amends the definition of “renewable electrical energy” within Hawaii’s renewable portfolio standards section to include, starting January 1, 2015, customer-sited, grid-connected renewable energy generation. This amendment is intended to specifically target customer-sited, grid-connected renewable energy generation into calculating the State’s progress in achieving its renewable portfolio standard benchmark requirements.

2. (HB855 HD1 SD1 CD1) RELATING TO ISSUANCE OF SPECIAL PURPOSE REVENUE BONDS TO ASSIST PACIFIC POWER AND WATER COMPANY, INC., IN THE DEVELOPMENT OF HYDROPOWER FACILITIES IN HAWAII

This measure, Act 87, SLH 2011, authorizes the issuance of special purpose revenue bonds for the purpose of assisting Pacific Power and Water Company, Inc., with the planning, permitting, designing, constructing, equipping, and operating of hydropower plants within Hawaii.

3. (HB1000 HD2 SD2 CD1) RELATING TO ENHANCED 911 SERVICES

Act 168, SLH 2011, clarifies and updates the enhanced 911 services law by providing for updates to the enhanced 911 program membership, relevant technology, and surcharge rules. The measure now specifically includes certain telecommunications utilities in the enhanced 911 board membership, and the Act makes modifications regarding certain telecommunications utilities’ ability to collect under the enhanced 911 surcharge.

XIV. FEDERAL ISSUES AND ACTIVITIES

A. FEDERAL UNIVERSAL SERVICE FUND ("USF") ELIGIBLE TELECOMMUNICATIONS CARRIERS ("ETC") – ANNUAL RECERTIFICATION

The Federal Universal Service Fund program, created by the U.S. Congress through the Telecommunications Act of 1934, as amended in 1996 ("Act"), is designed: 1) to promote the availability of quality telecommunications services at just, reasonable, and affordable rates; 2) to increase access to advanced telecommunications services throughout the nation; 3) to advance the availability of such services to all consumers, including those in low income, rural, insular, and high cost areas; and 4) at rates reasonably comparable to those charged in urban areas. The Act also requires that all providers of telecommunications services should contribute to Federal universal service in some equitable and nondiscriminatory manner; that there be specific, predictable, and sufficient Federal and State mechanisms to preserve and advance universal service; that all schools, classrooms, healthcare providers, and libraries should, generally, have access to advanced telecommunications services; and finally, that the Federal-State Joint Board and the Federal Communications Commission ("FCC") should determine those additional principles that, consistent with the Act, are necessary to protect the public interest.

As provided by the Act, the USF receives contributions from providers of telecommunications services to support four programs: 1) Lifeline/Link-up; 2) High-Cost; 3) Schools and Libraries; and 4) Rural Health Care. Those contributions are then pooled and redistributed to carriers designated as ETCs, in order to assist them in recovering costs of providing telecommunications services in areas where otherwise it would not be financially feasible.

As of June 30, 2011, the Hawaii Commission has granted ETC status to five carriers: Hawaiian Telcom, Inc. (HT), Sandwich Isles Communications, Inc. (SIC), Sprint Nextel (Sprint), Coral Wireless, LLC, d/b/a Mobi PCS (Mobi), and T-Mobile West Corporation (T-Mobile). Sprint, Mobi and T-Mobile are considered competitive eligible telecommunications (CETCs) providers. On March 14, 2011, the Commission designated T-Mobile West Corporation as an eligible telecommunications carrier in the state of Hawaii, Docket No. 2010-0119.

In response to explosive growth in high-cost universal service fund disbursements, the FCC issued an order on May 1, 2008 which adopted an interim cap on the amount of high-cost support that CETCs may receive. Under the interim cap, CETC support is capped at the state-level based on the support that each state was eligible to receive in March 2008 (annualized).

Sprint also has a voluntary agreement with the FCC (WT Docket No. 08-94) to reduce its high-cost support funding by 20% by 12/31/2008 and an additional 20% for each of the following four years until they receive no support. 2009 represents the second year of 20% reduction in high-cost funding support for Sprint. On June 7, 2011 Sprint filed an application with the Commission to relinquish its ETC designation in Hawaii, effective as of December 31, 2011.

The Hawaii PUC must annual certify to the FCC that all ETCs and CETCs that receive high-cost USF support are using those funds for their intended purposes. Along with FCC requirements, the Commission established its own annual certification procedures for certification in Decision and Order 22228 on January 16, 2006. The Commission recertified SIC, Mobi, and Sprint in 2009. HT does not require certification, because it does not receive high-cost USF disbursements. On March 14, 2011 the Commission opened docket 2011-0052 for the purpose of considering any proposed amendments to the Commission's annual certification requirements for Hawaii ETCs.

B. PROPOSED AMENDMENTS TO UNITED STATES CLEAN AIR ACT EMISSIONS RULES AFFECTING FOSSIL FUEL-BASED ELECTRIC POWER PLANTS

The United States Environmental Protection Agency ("EPA") is in the process of promulgating rules that will strengthen protections against toxic air emissions from electricity generation operations throughout the country, including Hawaii-based electric utilities. Focusing on emissions from fossil fuel-powered electricity generating plants, new clean air rules coming online within the next several months include 1) new Mercury and Air Toxics Standards ("MATS") under sections 111 and 112 of the U.S. Clean Air Act, and 2) clarified rules for Reciprocating Ignition Combustion Engines ("RICE") as part of new National Emission Standards for Hazardous Air Pollutants ("RICE NESHAP") codified under 40 CFR 63 (Code of Federal Regulations). These proposed rules will potentially result in significant new compliance costs from new mandated operational procedures and the retrofitting of existing technologies at affected electric utilities.

Via final rules enacted October 19, 2010, and subsequently clarified via the direct final rule process on March 9, 2011, utilities operating stationary RICE units have been directed to institute various measures that would increase the level of annual internal controls designed to ultimately reduce the emissions of Hazardous Air Pollutants ("HAP") from those units. The HAPs targeted under the RICE NESHAP rules include a number of potentially harmful substances like carbon monoxide, benzene, formaldehyde, chromium, lead, mercury, and nickel. Controls affected by the regulations include, but are not limited to, the annual frequency of filter changes and the annual inspection of spark plugs and hoses. In addition, the RICE NESHAP rules set out specific operating limits concerning engines using oxidation catalyst or non-selective catalytic reduction technology, and establish engine startup standards. Similar to the MATS rules discussed below, the RICE NESHAP rules are expected to benefit the country through significantly reduced health risks from HAP exposure. Full compliance with the proposed rules is estimated to be approximately \$383 million in total national capital costs by 2013, the year of full implementation, and additional annual compliance costs of \$253 million for all applicable units throughout the nation.

On March 16, 2011, the EPA issued proposed MATS in order to set pollution limits on the amount of mercury and other toxic air pollutants that are regularly emitted from power plants, specifically chemicals released from both new and existing electric utility steam generating units ("EGUs") located at those plants. With respect to oil-fired EGUs like those found in operation in Hawaii, the proposed rules will set numerical limits on emissions of various metals and chemicals, such as mercury, arsenic, nickel, hydrogen chloride, and hydrogen fluoride. It is claimed that the release of the pollutants mentioned into national air and water sources result in the rise of significant health risks each year to affected individuals coming in close proximity to the hazardous chemicals. In addition, the proposed rules would create new work practices to prevent organic air toxin emissions, like those including dioxins and furans that can be caused by improper combustion practices in power plants. Both the emission limits and enhanced work practice rules for EGUs are to be reviewed through EPA-led compliance and performance testing programs. Though the EPA estimates the national annual cost of compliance for the nearly fourteen hundred targeted EGUs will reach over \$10 billion in 2016, it is reported that compliance with the proposed rules is fully achievable using existing EGU-serving technology.

As of the drafting of this report, the MATS process aims to enact final regulations by December 16, 2011 following the full public comment and hearing process for federal agency rulemaking.

To comply with the above rules, Hawaii-based electric utilities will potentially be required to expend significant amounts of capital in order to bring their existing electricity generating equipment and company procedures in line with the new requirements. Local utilities generate

the vast portion of the State's electricity from fossil fuel-fired engine technology that burns petroleum. It is unclear what will be the precise costs for Hawaii's electric utilities in upgrading existing systems. However, the EPA estimates above for total annual national compliance costs for both the RICE NESHAP rules and the MATS indicate the potential for heavy utility investment in compliance solutions that can range from equipment retrofits, upgrades, internal restructuring, as well as monitoring, testing, and reporting activities.

XV. PREVIEW FISCAL YEAR 2011-12

See PUC Website - <http://puc.hawaii.gov>